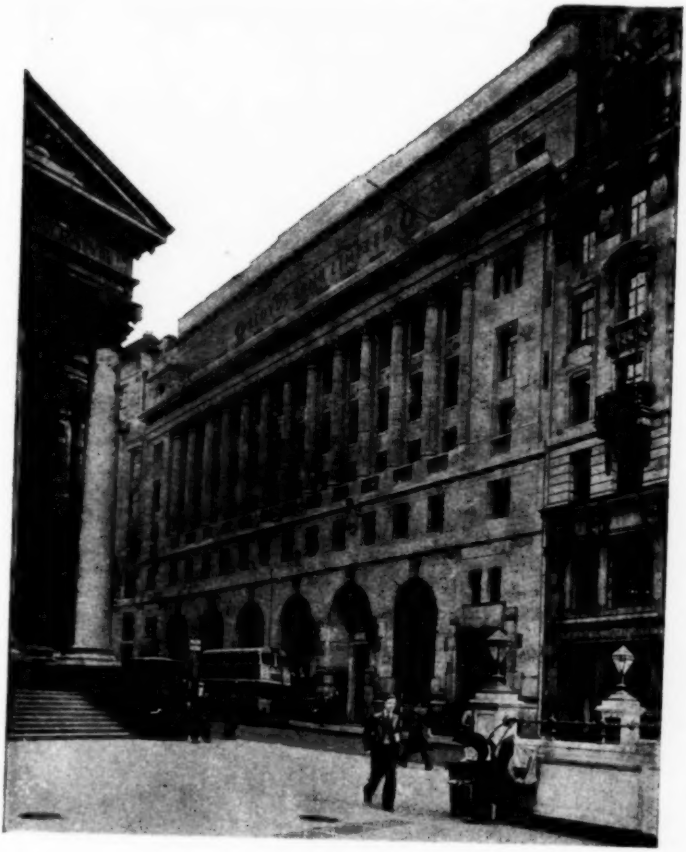


Lloyds Bank Review

1677

APRIL 1952

Lloyds Bank Review

New Series | APRIL, 1952 | No. 24

TABLE OF CONTENTS

The Bank publishes from time to time in this Review *signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles. They are published in order to stimulate free discussion and full inquiry.*

Halfway to 1960

By Colin Clark

IN the 1920's, the usual objection to proposals for Governmental economic planning was that while such planning was inherently desirable (" rationalization " was the fashionable word in those days), no Government could, in fact, command the wisdom to foresee the economic future, and that economic planning was therefore better left to the hit-and-miss methods of private capital. As a young man I ventured to doubt these beliefs, holding that the private advantage of powerful industrial groups might well conflict with the public advantage, and that Governments could, if they tried, obtain some foresight into the economic future.

I do not in any way withdraw from the above beliefs now. It has, in fact, been shown (indeed, even beyond my expectations) that the devices of modern statistical technique and economic theory, in the hands of any competent economist, can enable us to obtain a reasonable measure of foresight into the economic future.[1] But the confirmation of these beliefs has come in the beautifully ironic manner which the Muse of History so often reserves for herself. While I have found striking confirmation of my earlier beliefs about there being some measure of predictability of economic events, I feel an ever-increasing degree of scepticism as to whether any Government exists which will have the courage to act upon this knowledge, for such action is always unpopular with someone. And (be it added with regret) it is becoming increasingly difficult to find economists who are willing to examine the facts and draw their conclusions in a strictly disinterested manner, without being influenced either by their own preconceptions or by the political or business needs of their employers.

It has been suggested that the present year provides a convenient half way house for reviewing the predictions made in my book *The Economics of* 1960, which was published by Macmillan's in the middle of 1942.

---

[1] After all, this would not have surprised Shakespeare. He seems to have foreseen the principles of economic forecasting with considerable exactitude:

There is a history in all men's lives,
Figuring the nature of the times deceas'd,
The which observ'd, a man may prophesy,
With a near aim, of the main chance of things
As yet not come to life, which in their seeds
And weak beginnings lie intreasured.
Such things become the hatch and brood of time.
(King Henry the Fourth, Part II, Act III, Scene 1.)

Though 1942 was the publication date, the text was in fact written during 1940–41.[1] The manuscript was completed on the 15th May, 1941, and despatched to the printer on the 7th June of that year. The quotation of these dates is not a piece of unnecessary pedantry, but is to remind us of the almost forgotten fact that at the time the book was written the War was a purely Anglo-German one. Neither Russia, Japan nor the United States were implicated; nor, at that moment, did it appear likely that they would be. Under these circumstances, I assumed (perhaps entirely unjustifiably) that the increasing pressure of British air-power would bring the War to an end in a shorter time, and with less destruction and disruption on a world-wide scale, than was actually the case.

Subject to this consideration, let us examine the principal predictions in the book, and see how far they are approaching fulfilment—not primarily to score points, but to test objectively the idea that the economic future can be in any way foreseen.

For convenience, we can take a concise summary of the conclusions as presented in a contemporary review in *The Banker*:

> The year 1945 should mark the turning point of a long period cycle; and the capital-sated phase which began around 1930 should then give way to a capital-hungry period lasting until 1960. The detailed implications of this reversal of trend are naturally cheering in the extreme. We are told that the incentive to erect tariffs for the purpose of encouraging an artificial transference of labour from primary to secondary industries should disappear; that the terms of trade for primary products will improve by as much as 90 per cent. compared with the 1925/34 average; and that primary production will increase by some 56 per cent. above the level of the early 'thirties. On a Clark's-eye view, of course, war and revolution, social upheaval and depression, are little more than irrelevant incidents which cannot, in the long run, interfere with the progressive long-term trends. Those who persist in believing that progress of any kind may be impeded or reversed by a succession of cataclysmic slumps, however, should note that in Mr. Clark's view the trade cycle itself will largely disappear during the next two decades: "The possibility is always open that the depression following the post-war boom may be fairly severe and prolonged. But what we can be fairly sure of is that it will be the last of its kind. From the later 1940's onwards the world's capital-hunger will again be paramount and the steady upward trend in world trade, capital movements, employment and prices will have begun. Subsequent depressions will occur, but like the depression of 1907 they will be short-lived and will not, at the worst, involve unemployment on anything like the scale to which we have recently been accustomed."
>
> For particular countries, the implications of Mr. Clark's analysis are as fascinating as the picture he presents of the economic prospect as a whole. America and Russia will become the largest importers of primary

[1] The vagaries in the workings of the Australian bureaucracy, which left my official duties comparatively light during those years, but kept me fully occupied during the rest of the War, cannot be analysed here.

products. "Among the exporting countries of the present day, it appears that exports from the Argentine and Uruguay will expand only slightly, while in Australia, New Zealand and Denmark they will actually fall. . . . The great expansion of production will come in certain parts of South America (other than Argentine and Uruguay) and the Balkans." Owing to the stagnancy of their populations, Great Britain and France will find very little scope for investment within their own economies, and virtually the whole of their savings will have to be invested abroad. "Any interruption to the outward flow of these savings would, with its secondary effects, produce unemployment in Britain and France on a gigantic scale."

THE TERMS OF TRADE

It is the change in the terms of trade which is now attracting most attention and, I am afraid, provides the best illustration of my thesis; for this was, perhaps, the least recondite and most easily foreseeable of my conclusions, and at the same time the one which Governments, in many different countries, found it hardest to accept. By making this prediction, I achieved the remarkable result of making my ideas unacceptable to politically-minded economists in Britain, Australia and America simultaneously. The reasons for British objections were obvious: an adverse movement of the terms of trade would destroy the basis of the pipe dreams of the post-war economy so popular at the time, whereby the mere establishment of full employment and the natural course of technical progress would yield sufficient real income to allow for higher wages, shorter hours and limitless social services all round. In Australia, curiously enough, the idea of receiving a higher real income from primary products was extremely unwelcome, because it conflicted with the paranoiac national preconceptions towards urbanization and industrialization, and again promised the farmer and grazier a more important place in the community. As for the American economists, they were left speechless with resentment at the idea that their country was to become a large net importer of primary produce; to them, the whole basis of sound economics was to sell as much and to buy as little as possible. The established fact[1] that the United States became a *net importer* of farm products as early as 1911, and, with the exception of war and immediate post-war periods, has been so ever since, is far too weak to overcome American preconceptions.

I had some correspondence with Lord Keynes on the terms of trade and related subjects at the time the book was being written. At that time, he was promoting in the Treasury an expert committee on the problems which were likely to arise

[1] Very clearly pointed out, with diagrams, by Prof. Pearson in *Farm Economics*, June, 1940 (published by Cornell University). The diagram was reprinted (with Prof. Pearson's permission) in *The Economics of* 1960 (page 62).

over the British balance of payments during the 1950's. (It would be very interesting to know if this committee ever reached any conclusions.) He shared my view that the movements of the terms of trade were going to be definitely adverse to Britain, but looked forward to a much smaller order of magnitude of movement than I did.

For most Englishmen, unfortunately, these intervening years have been a period of fatuous and unreasoning optimism on this subject, alike among business men and trade unionists, among all political parties, and among all schools of academic thought. Indeed, the more adverse the facts have become, the more intense has been the subjective conviction that the world owes Britain a living and that cheap food will soon be back again. These obsessions are at their worst among those whose duty it is to take the most objective view possible—the officials in the Ministry of Food who control the nation's destiny in this regard. To one of these gentlemen, I recently made the suggestion (which I have published in Australia) that to help to meet the hardships caused by the combined impact of rearmament and adverse terms of trade, Australia should for some years make a direct cash contribution to the British Treasury. He waved the idea aside. " We do not want a donation " he said, " we want to continue our well-established policy of obtaining cheap food by hard bargaining ". *Quem Deus vult perdere, prius dementat.*

That otherwise admirable periodical, *The Economist*, will have to do penance for some years (and indeed it does now appear to be wishing to make amends) for its statement[1] that " before very long, the normal state of affairs will return and the supply of food in the world market will show a chronic tendency to outrun the effective demand for it ".

The writer of the above passage can perhaps plead extenuating circumstances when we consider the date at which it was written. Of all the post-war years, 1949 was the only one which gave any indication, however slight, of any recession in prices, wages or employment. In the United States, for a few months, there was a definite downward movement. Moscow decided that the last crisis of capitalism was starting, a view shared by many semi-Marxists all over the world. For myself, I held at the time that this 1949 recession would be exceedingly mild and short-lived.[2]

[1] 14th May, 1949.

[2] See comments on the subject in an article published in *Econometrica*, April, 1949 (written August, 1948); I made the same points in a conference with Dr. Nourse in Washington, 1st August, 1949.

We can now see in retrospect that this extremely mild recession of 1949 was the precise counterpart of the much more drastic recession of 1920–21 after the First War.[1] The first post-war cycle has come and gone.

Let me further claim a redoubtable ally. Writing at the same period (July 1949), Prof. Dennis Robertson was not deceived by any transitory recession. With that combination of profound argument and felicitous style which causes his infrequent writings to be so highly prized, and very reasonably choosing Lloyds Bank Review as his medium, he wrote:

> How strong and persistent are the forces making it progressively more difficult for the manufacturing populations of Western Europe, however correct their monetary arrangements, to earn from overseas the requisite fodder alike for their own fastidious stomachs and for their insatiable machines.... We ought perhaps to have foreseen the emergence of the revolutionary notion that some day 1,000 million Asiatics would take it into their heads to expect to have enough to eat.

I re-examined some of the conclusions of the book in a paper requested for the plenary session of the United Nations Scientific Conference on the Conservation and Utilization of Resources in August, 1949. The matter was further reviewed in a paper for the conference of the International Economic Association at Monaco in September, 1950. The original estimate of the movement of the terms of trade up to 1960 was confirmed, subject only to the addendum that about the same level of the terms of trade would persist until 1970 or later. This conclusion is restated now.

POPULATION TRENDS

In neither of the papers mentioned above, however, was adequate account taken of one of the most important pieces of new information, namely the trend of population.

Nearly all recent population forecasts in Western countries have predicted stationary or declining populations, and it is on the basis of these predictions that terms of trade unfavourable to agriculture have been expected. While it is true that the authors in most cases disclaimed the title of "predictions," and claimed to be doing no more than showing what the ultimate results would be if certain trends were continued, nevertheless the mere selection of these trends for examination,

[1] Credit is due to Mr. Oliver Lyttelton for a statement he made during the War, pointing out (contrary to the opinion of many American economists at that time) that the amount of work waiting to be done in the post-war world would be so great that no recession of any kind was conceivable during the first three years after the War, and that anything that occurred after that period would be on a much milder scale than the analogous movement of 1920–21.

and publication of the results, indicated at least that the authors thought them quite probable. Outstanding was Dr. Enid Charles's estimate published in 1935, showing a virtual disappearance of the English population in the course of a century. In the United States a series of official estimates prepared by the Census Bureau, accompanied by a large number of unofficial estimates, predicted that a stationary population would be soon reached. A most diligent and thorough series of estimates for European countries by Professor Notestein remain valuable for their careful prediction of mortalities, but he made assumptions of continued decline in fertilities which are obviously wide of the mark, and made no provision for migration.

In *The Economics of* 1960 the change in trend was foreseen (P.10):

> Not more than two or three years ago, (I wrote in 1941) it was customary to anticipate a continuing decline in the fertility of the white races to an almost indefinite level. Data for recent years, however, make it clear that there has been, in nearly every country, a marked reversal of the downward trend. The great wave of contraceptive propaganda which swept over the world during the last generation now appears to have come up against something stronger than itself. Somewhere round about the year 1935 seems to have marked the turning of the tide, and in the majority of countries gross and net reproduction rates are now substantially increasing.
>
> Figures for 1940 in Great Britain and Sweden appear to show an acceleration of the increase under war-time conditions. Paradox, even if out of place in economics, is certainly at home in demography.

While expecting a reversal of the trend, I quite failed to anticipate how strong this reversal was going to be in certain countries, particularly the United States, which by the end of 1951 had already reached the population of 154 millions predicted for 1960. For most non-European countries, however, the predictions proved fairly accurate.

In every belligerent country there was a great increase in the number of marriages in the war and immediate post-war years, followed very shortly by an increase in the number of births. Many demographers computed that this " Baby Boom " would prove only temporary and that births would soon resume their normal level—see for instance my calculations for England published in *Population Studies* in 1948. For England, this prediction proved correct, and would have applied equally to Sweden and Denmark: but not to other countries. American demographers waited in vain for years for the fulfilment of their predictions that the " Post-war Baby Boom " would prove transitory. It is now perfectly clear that increased average

size of family, and earlier age of marriage, have come to stay, at any rate for a number of years, in the United States and in a good many other countries.

If any reader demands to know how this is clear, he must be prepared to face a certain amount of mathematics, and in the French language. Suffice it to say here that some recent work published by M. Bourgeois-Pichat, of the *Institut National d'Études Démographiques*, has revolutionized our methods of determining population trends.[1] His methods represent as great an improvement over the measures of gross and net reproduction rates previously in use as did these over the old crude measurements of birth rates.

Speaking in highly simplified and approximate terms, it appears that only England, Sweden and Denmark are now adhering to the two-child average family of the 1930's. In Scotland and Australia the figure is 2½, while the three-child average family now prevails in the United States, France, Switzerland, Norway, Finland, Netherlands, Italy, New Zealand, and the white population of South Africa. (An ascending figure in the United States and France, a descending figure in Italy and Finland, and a figure staying where it was in Netherlands and South Africa, have all contrived to meet at 3.) Canada, with Spain and Portugal, now shows a four-child average family. It appears that these latter figures, ascending, have now passed the gradually descending figures of many Oriental countries, such as Japan, India and Russia, in which the average size of family now appears to be at or below 4—and, of course, the Oriental mortality is far higher.

If the average American family now produces three children, and we make the necessary allowances of some 7 per cent. who die before reaching maturity and 10 per cent. who fail to marry, we still get the result that two parents in this generation will be followed by 2.5 parents in the next generation; and, owing to earlier marriages, the generations now come round at shorter intervals, of some 25 years or less on the average. Figures for most Western European countries, apart from England, are almost as favourable. In other words, if each

---

[1] *Mesure de la Fécondité des Populations*, by Jean Bourgeois-Pichat—Presses Universitaires de France, 1950.

See also *Où en est la natalité francaise?*—J. Bourgeois-Pichat—*Population*, Janvier-Mars, 1950.

A commentary on M. Bourgeois-Pichat's methods, and preliminary extension of his methods to a number of additional countries, has been prepared by Mr. E. A. Boulton and published in the October, 1951, issue of *Economic News*, Queensland Bureau of Industry, Brisbane, Australia.

generation is approximately 25 per cent. larger than the last, and generations come round on the average every 25 years, the United States and the Western European countries have settled down to a rate of natural increase (quite apart from any immigration which they may receive) of about 1 per cent. per annum—a figure of the same order of magnitude as the rate of population growth in India. In countries such as Canada and Spain the long-term rate of natural increase now probably exceeds that of the most rapidly increasing Oriental countries such as Ceylon or Malaya, or Latin America.

Taking all these facts into account, and extending our projection forward to 1970, it appears that we must predict that from now till 1970 the world's population will be increasing at about 1¼ per cent. per year. Britain looks like being the only large country which will have a rate of population increase outstandingly lower than this. India and Eastern Europe may show a rate of increase a little below the world average, while Latin America, Africa, South-East Asia and Australasia will show a rate of increase of 2 per cent. per annum or more.

Excluding China—where population, contrary to the popular belief that it is increasing, has in fact been stationary or declining for the last hundred years—the world's population was rising fairly steadily at the rate of 0.95 per cent. per year from 1850 to 1913. It was about the same in 1920 as it had been in 1913—this was due mainly to the influenza and typhus epidemics, not to the First World War, which was a comparatively minor event, demographically speaking. Since 1920, it has been rising steadily. During these last three decades, mortality rates have been falling all over the world. Reproductivity rates, so far as North America and Western Europe are concerned, first fell and have now risen again ; in Asia and Latin America they have now begun to fall.

It is, however, an interesting speculation that the violent check to the world's population growth between 1913 and 1920 may have been a contributory factor to the prolonged and intense movement of the world's terms of trade against agriculture which began in 1925.

PRODUCTIVITY IN AGRICULTURE

These rates of population growth, in many cases so much higher than I projected in 1941, have, however, from the point of view of the terms of trade, been neutralized by another factor, which is the reason why I have left my projection for 1960 as I made it in 1941. This other factor is the rate of

increase of real product per man at work in agriculture. Using the data available in 1941, I projected an upward trend for this figure for the world as a whole of only a little over 1 per cent. per annum. The highest figure then available, namely for Sweden, showed a steady upward trend of 1.6 per cent. per annum.

There is no doubt that during the last decade this upward trend, in some countries, has greatly accelerated. Between the later 1930's and 1950, rates of increase equivalent to the high previous Swedish figure were also found in Norway, Denmark and Canada. Rates of increase of about 2 per cent. per annum were found for Belgium and Cuba, 3 per cent. per annum in Britain, Australia and New Zealand, and 4 per cent. per annum in the United States—but this latter figure can best be described as a general upward trend of 3 per cent., plus an additional spurt during the war years.

These figures represent gross and not net output. " Gross output " is defined in this case after excluding seed, fodder and other agricultural products used up in the process of production, but before deducting for fertilizers, implements, insecticides, transport, merchanting, and all the other products of *urban* industry used up in the process of agricultural production. In modern England, which is extensively tractorized, these costs add up to nearly half of gross output, as defined above : in other countries the ratio is generally less. The point is that, with increasing use of tractors, fertilizers, etc., net income per person engaged in agriculture is everywhere increasing less rapidly than gross income. In Britain particularly, where there is one tractor to every 3½ men working on the land now, as against 1 to 17 in the 1930's, net income per person engaged in agriculture is increasing at only about 1 per cent. per year, as against 3 per cent. per year increase in gross product per head.

Still, from the point of view of the consumer, it is gross product that matters in this connection. If the food which he now eats requires a little less land, considerably less farm labour, and a great deal more industrial labour per unit than it used to —well, so much the better, from the point of view of a consumer in an industrial country, faced with a world food shortage.

But while there have been striking improvements in gross product, and considerable improvements in net product per person engaged, in certain countries, this movement has certainly not been world-wide.

In fact, the countries listed above are the only ones in which a substantial improvement is known to have taken place. For most of the rest of Europe, and for practically the whole of Asia, there are signs of only a very slight increase, or else of a positive decrease, in gross output per man. For Africa and Latin America the information is inadequate. However, there are most ominous signs of a widening gap between the Haves and the Have-nots, so far as farm production is concerned. The world average rate of increase in agricultural production is certainly far lower than that shown above for a few of the favoured countries.

We still, therefore, lack sufficient information to say whether the world over-all average rate of increase in gross agricultural product per man engaged matches the rate of increase of world population. Suppose we omit from our calculations the whole Iron Curtain area, Africa and Latin America, on the grounds, first, of lack of data, and secondly, that such areas practise, either completely or to a considerable degree, self-sufficient economies, and that their productivity, or lack of it, therefore has comparatively little influence upon the world market. For the remainder of the world, the rate of population growth is now reduced to a figure of a little over 1 per cent. per annum, while the over-all average rate of increase of gross product per man engaged in agriculture, even when we include the Asiatic countries in the average, may well be 1½ per cent. or more.

Then the problem of world food supplies is within sight of solution? Not a bit of it. We have still to take into account:

1. The increasing demand for farm products per head of the consuming population, as standards of living rise;
2. More important, the decline in the rural labour force relative to total population.

On the decline in the rural labour force, some of the figures are astonishing. Between 1940 and 1950 the male rural labour force in the U.S. fell by 16 per cent.; in 1950–51 it fell by 6½ per cent. in a single year. In Australia, there has been a fall of over 20 per cent. in ten years, and in Canada one of just under 20 per cent. in the same period. Falls of 20 per cent. or more were also shown by New Zealand and Sweden.

In the Western countries, there is statistical evidence to show that the normal long-period rate of outflow of population from rural areas began to accelerate after 1914. Here we are probably seeing the consequences of newspapers, radio, schools, motor buses, military service, and other factors tending to

homogenize the rural with the urban population. All these blessings of modern civilization are now with us to an intensified degree. We can expect to see them working to increasing effect in Western countries, and also beginning to come into operation in many other parts of the world. In Japan, for instance, the rural population was falling at the rate of 1 per cent. per annum during the 1930's, and as soon as present disorganizations have been overcome this fall will probably be resumed.

Another point which must be remembered is that in many countries the rural worker and the farmer are now, quite reasonably, claiming the shorter working week and the occasional holidays which urban workers enjoy. Even in France, according to M. Coutin's estimates, while the rural labour force fell 23½ per cent. between 1906 and 1946, the number of man-hours worked by it fell 34½ per cent. during the same period.

We must now turn to the lesser, but still important, point of increasing demand per head of population. Demand for farm products per head of population in industrial countries, if not damped down by an increase in their price relative to the price of industrial goods, is likely to go on increasing at a rate as high as ¾ to 1 per cent. per annum. The rate of increase of demand will, of course, be lower in the non-industrial countries. But there is evidence to show that, whatever rate of increase of real income per head may be attained in countries like India (reliable Indian statisticians estimate it at ¼ to ½ per cent. per annum[1]) will be almost entirely taken out in the form of increased demand for farm products. The rise in prices during the last decade has largely got the Indian peasant out of debt, and somewhat increased his real income ; the first consequence is that he now consumes more of his own produce and places less on the market, which is the main reason why India is now a large food importer.

Now, making use of data and reasoning which will be familiar to all economists working in this field, but which are somewhat too long and technical to be set out here in full, we can state that, for every 1 per cent. by which the world supply of farm products falls short of the demand for them, the restoration of equilibrium will require a movement of the terms

[1] This is one respect in which the predictions in *The Economics of* 1960 are going to prove, it appears, completely mistaken. I expected real income per head in India (page 71) to rise, between the 1930's and 1960, at the rate of nearly 1¾ per cent. per year, and the proportion of her labour force engaged in industry was to have risen from 14 per cent. in 1931 to 57 per cent. in 1960. It is not, of course, inherently impossible that India should follow the example of Japan, where real income per head rose fourfold (a rate of increase of nearly 5 per cent. per annum) between 1900 and 1930. But the time for such development in India, it appears, is not yet.

of trade in agriculture's favour by about 2 per cent.; and that, if the decline of the rural labour force in the Western countries is to be checked, rural producers will have to receive a further increase in their incomes of 50 per cent. or more *relative to the incomes of industrial workers*.

Attention has been principally concentrated upon the terms of trade because this is, for Britain, the most lively issue at the present moment. But it is certainly not the only issue; and the various conclusions reached in the book form an integrated and interdependent whole. The conclusion that America and Russia would be the largest importers of primary products seems to be coming true. After all, it was only predicted that Russia would *import* large quantities of food and raw materials: nothing was said about whether she would pay for them. But, by engrossing to herself all the produce of Eastern Germany, Central Europe and the Balkans, which used to feed the industrialized areas of Western Germany and still leave a substantial surplus for export to other countries, Russia is creating just as much of a shortage on world markets as if she were competing in a normal commercial manner. As for the predicted stagnation or fall in the exports of Australia and the Argentine, it is coming true all too quickly.

THE SUPPLY OF CAPITAL

Regarding the prediction that Britain and France, with their virtually stationary populations, would need to seek external outlets for the bulk of their savings, fulfilment has been deferred by intercurrent circumstances, but may still be expected before 1960. In France, both war damage and pillage by the German army proved to be considerably greater than had been anticipated, and will still take several years to remedy. In Britain, any normal formation of savings has been inhibited by altogether excessive scales of taxation, and internal demands for capital abnormally increased under that artificially distorted economy to which both political parties seem to be so attached. The demand for new houses, for instance, would be much less if every applicant knew that he would have to pay a full economic rent for his dwelling; less again, if the rents of existing dwellings were decontrolled, so that people could find new accommodation readily if they were willing to pay a somewhat higher rent for it; and reduced still further if people had to pay world prices for their food, and so had less to spend on other things.

But the largest and most important of all the questions raised in my book must, I fear, still be left open. That is the question whether the world (outside the Iron Curtain area) is going to enjoy any measure of free international capital movements. In *The Economics of* 1960 large international capital movements were predicted. These first estimates (which seriously understated the rate of growth of population and real income in the United States) were revised and brought up to date in an article published in *Fortune* (July, 1950). In this article I set out to controvert the now wide-spread impression that the only capital surplus available for international investment will be that of the United States and Canada. Though the order of magnitude of the amounts which they will have available is much lower than that of the United States, substantial international capital investments are to be expected from Britain, Belgium, Australia, Argentine and Japan. In France and Germany war damage will still take a number of years to repair, and capital imports will be necessary, but after some years they too will again become capital-exporting countries. The greatest need for capital inflow is into Latin America, India and Pakistan, South-East Asia and Africa.

The world's need for very big capital movements in these directions is now becoming very urgent, and neither public authorities nor private investors seem to be doing anything about it. This is an economic problem whose gravity makes all others seem small and transitory in comparison. For, if something is not done about it in a few years, the economic gulf between the Haves and the Have-nots will become irretrievably wide; with unemployment, glutted markets and uninvestible capital on one side of the line, and inflation, famine, political disorders and extreme nationalism on the other. Could a Russian propagandist ask for anything better?

COLIN CLARK.

Brisbane,

Australia.

March, 1952.

The Campaign against Monopoly and Restrictive Practices

By Sir Henry Clay

I

IT is fashionable to attribute a large part of the economic difficulties of the United Kingdom to a bad habit of its business men. Encouraged by pre-war Governments, it is alleged, they have slipped into the habit of relying on control of output and prices rather than on technical development and commercial enterprise; their first thought is to get together and eliminate risks, to shirk the worries inseparable from expansion; to seek safety and ease by monopoly and restriction. Hence the difficulty the United Kingdom experiences in getting productivity up to American standards, and therefore in bringing its external payments into balance. This is the burden—or at least a prominent theme—of the lectures which our American friends read us after their visits; it is stressed by the more informed writers in the financial and economic press; economists on both political wings unite at least on this charge; and all three political parties welcomed, while seeking to strengthen, the Monopolies and Restrictive Practices Act of 1948. The present Government has promised to amend this Act. If there is to be any rational discussion of a new Bill, the first need is to restore some sense of proportion; a good starting point is the recurrent comparison with post-war America.

If conclusions are to be based on comparisons, let us widen the range, both in scope and in time, and cast our minds back to the inter-war period. It was not American industry with which British industry was generally compared unfavourably in the 'twenties. The " difficulty " on which the critics concentrated then was the relative decline in British exports. British exports were not losing ground to American industry; America and the United Kingdom concentrated on different types of export. No European country complained then of American export competition in textiles, coal, steel, shipbuilding and shipping; these were the depressed industries which mattered in the United Kingdom. The countries which were penetrating British export markets, and the countries consequently with which British industry was compared unfavourably, were Germany, Poland, Belgium and France. Now, the industrialists of these countries were all much more " cartel-minded " than the British business man. German

industry was organized on the basis of cartels; the profits secured by the coal cartel financed a drastic reconstruction of the Ruhr coal industry such as the British industry is undertaking only now after nationalization; the French steel industry grew to unprecedented heights under the beneficent (or maleficent, according to the point of view) direction of the *Comité des Forges;* Belgium was the incubator of international cartels. Even the United States, when suddenly assailed by the problems of a depressed economy in 1932 and 1933, lost its faith in the virtues of unrestricted competition, and in the New Deal encouraged "restrictive" attempts to balance productive capacity and market demand. It was only a transient aberration; but recovery from depression thereafter was much slower than in the United Kingdom, and not complete until the Allies began to place war contracts in America in 1939 and 1940.

More to the point, since it is British industry that is under examination, is a comparison of various British industries in the inter-war period, of "restrictive" industries with "competitive" industries, and of the same industries before and after they adopted "restrictive" policies. Such a comparison has the embarrassing result of showing that some of the industries most criticized for monopolistic tendencies turn out to be the most progressive and successful, both technically and commercially. British cement, highly concentrated and operating before the War a quota system, boasts that its prices are the lowest in the world, and its output per man comes nearer the American achievement than any other industry's. British electric lamp prices, we learn from one of the Monopoly Commission's reports, are lower than in any other country except America and, in spite of the general rise in costs, are below their pre-war prices. True, their pre-war price yielded high profits; but since lamp manufacture is only a fragment of electrical engineering, and the chief firms engaged in it were using their profits to establish British leadership in the export markets of the world for heavy electrical generating plants and equipment, it is perhaps fortunate that they were able to make these profits.

Even more impressive is the experience of industries which changed their policy. Between the Wars the most depressed of British industries were the great export industries—cotton, coal, shipbuilding, steel. In the 'twenties the cotton-spinning industry persisted in the attempt to restore prosperity by unco-ordinated individual effort; the chief result was a level of prices which did not cover the long-

term costs of production, the use, it is estimated, of upwards of £16,000,000 extracted from unfortunate holders of shares only partly paid-up, not for new equipment or an active marketing policy, but simply to finance current losses, and the steady deterioration, technical and commercial, of the industry. The depression of 1929–32 compelled contraction and re-organization; and the opportunity was taken to organize also some collective control of prices. Losses were stopped, and a process of technical improvement made possible. Similarly steel, after organizing itself to control output towards the end of the great depression, was enabled to put in hand, and carry through in the short time available before war broke out, an amount of re-equipment and new development greater than the preceding generation and a half of unrestricted competitive action had produced. Even coal and shipbuilding by resort to "restrictive" measures checked the calamitous losses which threatened a permanent closing down of these industries in some areas.

II

These comparisons are suggestive; they suggest that some "restrictive" measures, measures to relate productive capacity to markets, may have an economic justification in the conditions such as those in which British industry found itself after the 1914/18 War. It is not difficult to discern what these conditions were. War had interrupted contact between industry and its markets, and after the War protection perpetuated this effect. No amount of competitive price reduction could have enabled the Lancashire cotton industry to recover the Indian market which before 1914 took two-fifths of its output, or the woollen industry to recover its United States market; tariffs were—and still are—adjusted to prevent any such result. Where markets were still open, as they were for coal, war stimulated the development of alternative sources of supply. The decline in world trade depressed shipping and shipbuilding as soon as war losses had been replaced; the Washington Naval Agreement deprived shipbuilding of an essential element, the building of capital ships. More diffused, but not less important, was the delay imposed by war on the normal re-equipment of industry and the normal transfer of resources from declining to developing industries. The loss of equilibrium, of balance between capacity and markets, which all this implied, was something that required co-ordinated action, beyond the capacity of individualistic competition and bankruptcy. It is still apparently necessary to remind ourselves

that the First War dislocated the British economy to an extent that no other country experienced, and that the strain of ten years of world war in the last thirty-eight years should not be ignored in seeking an explanation of present difficulties.

These changes involved all industry, and particularly the making of large-scale fixed investments, in a degree of risk which it was ill-equipped to take. Larger capital resources were needed. At the same time the pressure of taxation on profits, increased by war and post-war needs, slowed down the accumulation of capital in business hands. Resources have been further depleted, in the long period of rising prices which has followed the suspension of the gold standard, by inadequate allowances for depreciation of plant and replacement of stocks. Profits are the stream from which growth and enterprise and re-equipment are nourished; if they are depleted, it is difficult for the industrialist, with the best will in the world, to realize any ambitious plans for re-equipment and development.

So much for the effects of war; for our present purpose they would not be so important if they did not re-inforce the influence of a fundamental change in industry operating in the present century independently of war — the enormously increased importance of fixed capital equipment. What American comparisons do bring out is the decisive influence on manufacturing costs of capital equipment. Industry is no longer carried on mainly by small or moderate-sized firms, relying on the skill of workpeople, and using an amount of capital per head which can be collected in a few months. If conditions can be established for the use of mechanical equipment—the "mass production" of popular discussion—and finance for the equipment can be secured, almost miraculous reductions in costs are possible. At varying rates, all industries in all countries are moving in the direction of more and more capital equipment per worker.

Given this trend, the resort to "monopolistic" or "restrictive" methods by industries faced with the difficulties of European industry after the First World War is natural enough. Unrestricted competition tends to erode margins and reduce the profits out of which alone the pressure of the continuing need for more and better equipment can be met. The more important fixed capital becomes, the greater the temptation to cut prices below the level at which total costs are covered, in order to keep the expensive plant running. Cartel arrangements arise most naturally in the most intensively

capitalized industries; the plant is in existence, it must be kept going. But plant wears out, seams are exhausted; and if prices have been persistently kept down by unrestricted competition to the bare cost of labour and materials, it will be impossible to keep up the plant, still less to replace it with technically superior equipment: the industry has been giving its capital away.

This danger is not serious in a stable, well-balanced economy. The economies of Europe after war were neither stable nor well-balanced; and cartel arrangements were a response to the same need as led to the great development of selling organization, particularly the growth of advertisement. Alike they were attempts to create some shelter from the force of competition pressing down prices below full cost; alike they were justified, in the eyes of their authors, as making possible the technical development and organization of industry on which in the long run cheap production was thought to depend, and giving some assurance of a reliable demand on which mass production could be safely based. Both are to be regarded as part of the cost of mechanized manufacturing production. The alternative policy of relying between the Wars on bankruptcy was also costly without noticeably encouraging the re-equipment of industry.

III

This analysis will doubtless provoke two replies. In the first place, it is based on the difficulties and practices of industry in depression; since the 'thirties, it will be said, we have learned how to prevent depression. We have learned the secret of Full Employment, and for over a decade now the economic problem has been shortage of labour, not unemployment. It is, however, a little early to assume that the problem of unemployment is solved—even in theory; it is too early to be sure that post-war prosperity is anything more than an exceptionally prolonged and widespread restocking movement following an exceptionally prolonged and widespread war. Compared with the First World War, the Second was far more exhausting, extending to the whole world as contrasted with Europe, lasting six years as compared with four, and prolonged by war fears and rearmament. We do not know yet whether full employment is not a new name for an old evil—inflation. The persistent rise in prices, recurrent exchange crises, continuing need of import controls, American aid, and appeals for saving and economy, which have accompanied full employment, make it unsafe to conclude that we have found

the complete and practical answer to the check to economic progress and loss of economic equilibrium caused by war.

The second, and much stronger, reply is the example of American industry, the example *par excellence* of intensive use of capital equipment and technical advance; and America is the country where the tendency to "restrictive practices" has made least progress and has been resisted most successfully. This is true; but the conditions of economic enterprise are so different from those of any Western European country that it is not necessary to explain every difference of practice by the Sherman and Clayton Acts. The scale of the United States makes caution necessary in any comparison with the United Kingdom—a protected market with a national income eight times that of the United Kingdom. The natural resources are not comparable; if the population of the whole world were concentrated in the United States, the number of people per square mile would be less than it is in England and Wales. Fundamental differences in social aims and ideas are relevant; business has greater, and the service of Government and the learned professions less, attractions in America than in England; perhaps the English universities are guilty of restrictive practices in turning out so much smaller a supply of graduates for industry's needs, in proportion to population, than American universities! The geographical immunity from war which America enjoys (and the United Kingdom enjoyed by comparison with the Continent) must have its influence, and the cumulative strain on England of ten years' warfare between 1914 and 1945 compared with America's five years, even though America's generosity assumed a large share of the costs. This does nothing to lessen the importance of the example of economic enterprise and technical achievement which American industry offers, indeed it makes more urgent the problem of finding finance to follow that example; but it warns us that straight comparisons are dangerous and the American example cannot be transferred directly to the conditions of Europe.

One suspects in this exaggeration of the influence of "monopoly" a desire to divert attention from the inflationary effects of Government expenditure. Perhaps the loose application of the words "monopoly" and "restrictive" deceives the users of them. But the exaggeration may also indicate a confusion of two distinct elements in recent experience. Industry has been trying to limit and control competition; Government controls have had a much greater success in eliminating it. The result may well be to stifle initiative,

deaden enterprise, and raise costs; but these effects arise from conditions peculiar to Government controls.

The first is their statutory basis. A monopoly or other restrictive condition imposed by a control has a legal basis and is enforced by law. It is quite inclusive and rules out any possibility of direct competition. There may be partial monopolies in private industry; but they are not protected by law, and their possessors are still subject to the spur of possible competition. Where, as with most war controls, participation in a trade or industry was restricted to the firms engaged in it at a given pre-war date, the statutory restriction was most deadening.

Again, controls include such conditions as allocation of materials, control of take-over prices, restriction of chargeable costs, control of prices, and often allocation of customers. Since they are instituted to deal with scarcity, the level of costs allowed is usually set high enough to cover the needs of the marginally inefficient producers. All, or almost all, incentive to and opportunity of improvement, economy and enterprise is excluded; the movement of prices is not allowed to exercise the effect it should have on costs; changes are effected by authority, by a political process which is usually clumsy and always in arrears of the need of change. Controls, again, and other statutory monopolies have the resources of the State to draw on to cover their mistakes: if they cannot cover their costs by monopoly prices, they can draw on the Exchequer. The private "monopolist" has to draw on his own profits and reserves to cover his mistakes.

Thus controls do what the spontaneous efforts of private enterprise cannot do—exclude the *possibility* of competition and the influence of price changes in a market. Their purpose indeed is to prevent the movement of prices and to suspend the distributive function of markets. The price association or output agreement has to adapt its price and output policy to movements of supply and demand, movements of prices and all the other influences which operate in and through markets. There is a fundamental distinction between trades and prices which are taken by law out of the range of market control, and those which remain in and subject to a market.

IV

Governments may ignore the tendency to "monopoly" and give it free play, or may set themselves to reverse the tendency and eliminate the practices objected to. At the moment, the policy favoured by politicians would reverse the

tendency and eliminate the practices. The Monopolies and Restrictive Practices Act of 1948 is its outcome and expression.

The scope of the Act is defined in its title: " the supply of, or the application of any process to, goods, buildings or structures." In other words, it applies only to industry, in the narrow sense, to the exclusion of transport, distribution, and other *services*. But not the whole of industry: a proviso in Section 2 (1) apparently excludes the nationalized industries. Though the bulk of manufacturing and building is left, this falls far short of the whole field in which restrictive practices are possible. A table in the National Income White Paper giving gross domestic product makes it possible to measure roughly the parts of the field respectively covered and excluded; the relevant figures for 1950 are as follows:

	£m.		£m.
All Activities	11,896	of which Wages and Salaries	7,418
Mining and Quarrying	393	"	350
Manufacturing	4,418	"	2,929
Building and Contracting	624	"	465
Transport and Communication ..	976	"	652
Distributive Trades..	1,561	"	675
Public Authorities (including Health and Education)..	1,227	"	1,125
Other Services (excluding Domestic)	1,239	"	694

Manufacturing and building together are considerably less than half the total, and approximately equal to the aggregate of services. Yet services—transport, distribution, and the professions—are not without their restrictive practices. Even within the field it covers, the Act applies only partially; collective agreements over wages and conditions of employment are excluded, though these account for two-thirds of the whole income yielded by manufacturing and building. The limitation to manufacturing is the more difficult to understand since manufacturing industry, unlike most services, is under a compelling motive all the time to expand rather than restrict output. The very force which drives firms to combine to limit competition, the desire to keep plant working at almost any cost, operates to stimulate output after combination; it tempts to over-production, not to restriction. A price association will try to stop selling below cost, but it will not wish to check sales and leave its members' machinery standing.

The policy embodied in the Act, then, tends to expose the manufacturer to competition, while preventing him from

resisting monopoly. He will have his labour costs settled by negotiation with monopolistic trade unions excluded from the scope of this Act, and of other legal provisions against restraint of trade; his power—coal, gas, or electricity—he will buy from statutory monopolies; he must not reach out to the final consumer of his product, because that would involve resale price maintenance; his raw material will frequently be controlled by some Government scheme for protecting primary producers (restrictive practices which take the form of buffer stocks have the support of economists and politicians who oppose restrictive practices in industry); and if he exports any part of his output, he is certain to come up against the oldest, most extensive and most discriminating of restrictive practices, restriction of markets by protective tariff. But he must not, by merger or joint action with his home or foreign competitors, do anything himself to control his market. He will be criticized if his plant and equipment are not up-to-date, and exhorted to spend money freely on bringing them up-to-date; but he is warned that he must not combine with his fellow-manufacturers to prevent his more impecunious competitors from setting a level of prices at which few cover depreciation and none accumulate adequate funds for new equipment. Such profits as he makes—which, thanks to inflation, not monopoly, may be large—will be subjected not only to income tax, the common lot, but to a discriminating profits tax. One is surprised not at any evidence of lack of enterprise, but at the extent of the enterprise shown by British industry in the face of such discouragement.

V

It will not be a waste of time to discuss the alternative policy of giving industrial combination free play. It is an alternative to be considered in the present crisis in the country's economic affairs.

The spread of spontaneous attempts by industries to get some control of their markets has not, in this country at any rate, been accompanied by any decline in the relative share of wage-earners in the national income or in their general economic and social condition. It is no longer something revolutionary; to reverse it would be the revolution today. The spread has been encouraged by a clarification of the conditions under which it is possible to make legally valid agreements in restraint of trade. Parliament itself has taken positive action to enable producers to organize some control of their markets—by the Agricultural Marketing Acts, the

Coal Mines Acts (before nationalization), by facilitating the elimination of redundant productive capacity. The motive has been the same in all cases. A class of producers find themselves—whether by virtue of their numbers (like wage-earners) or small scale (like farmers), or the existence of a sudden and large increase in supplies in their markets after war (like coal and cotton), or some political curtailment of their market (such as new tariffs)—unable to adjust output to demand by individual action and maintain prices at a level which will cover costs even on an economical basis of production. Government intervenes to organize collective action, because the adjustment needed is not likely to be effected by individual competitive action through bankruptcy. Production and trade normally proceed by a series of bargains over prices and conditions between successive and co-operating groups of producers; so long as they can bargain individually on terms of equality, there is no need for collective action or Government intervention; but such equality cannot be assumed, and free competition in its absence leads to injustice.

The need of action to facilitate collective bargaining was realized first in the field of wages and labour conditions. The trend in industry generally is an extension, for identical reasons, of the principle of collective bargaining already established by experience in the market for labour. American practice confirms British experience: in spite of the ease with which the individual bargainer can secure his rights in a vast and rapidly expanding economy, in two fields the American political authorities have thought it necessary to intervene—agriculture and wage labour; in these, America in the last generation has carried interference with the settlement of prices and conditions by individual competition in a free market as far as any other country. Farmers are largely insulated by Government action from world movements in prices; and certain labour unions enjoy a monopolistic position which few "trusts" ever attained.

Whatever may be the position in America, in the United Kingdom there is no reason to fear the extension of collective action. It will never cover the whole field; even in the determination of wages and labour conditions, trade unionism is not compulsory. Similarly among manufacturers; there will always be individual firms, or whole trades, which find collective action unnecessary, and if there are no independent firms the mere possibility of competition acts as a restraint. But the freedom to organize is needed to even up bargaining power between different groups of producers. Not only

farmers and wage-earners, but numerous other sectional groups need the support of associated action. The difficulties of the cotton industry between the Wars were concentrated first on the spinning and then on the manufacturing section, because the finishing trades were collectively organized and the other sections were not. Between the Wars, again, coal-mining was depressed and unprofitable, while the gas and electricity supply industries, drawing their revenue from the same body of consumers, were continuously prosperous; now that nationalization of coal has redressed the inequality of bargaining strength between these competitors for the consumer's outlay, the coal industry is claiming a more equitable share. Similar inequalities occur all over the competitive field.

The Webbs, in their classical analysis of the place of collective bargaining in a competitive economy half a century ago, showed how the pressure of competition for the consumer's outlay was transmitted backwards by the stronger on to the weaker; the chief cause of weakness was individualistic bargaining over prices and wages, and the chief sufferers were wage-earners. Collective bargaining redressed this weakness and set a limit to the exploitation of the weak in the standard rate. The analysis is not applicable only to wage-earners, and there would be no novelty, but only the recognition of the lessons of a century of experience, in leaving industries to organize themselves for bargaining about other prices and conditions.

The same precedent explains why "monopolies" may keep prices down. Collective bargaining is a *procedure*; it does not determine the *content* of the contract, which will still depend on conditions of supply and demand. Under collective as under "atomistic" price settlement, the interest of the producer in keeping the price to the consumer down to the point at which his sales are at a maximum (over a period long enough to plan production) remains predominant; just as the interest of a trade union lies in keeping up wages only to a level that does not jeopardize employment. Atomistic competition may lower prices for the moment; it will raise them in the long run if it leads to wide and frequent fluctuations which deter the producer from investing in mechanized equipment. What is wanted is the price that will cover average long-term costs without leading to the accumulation of unsold stocks or the maintenance of idle capacity; rational discussion by collective methods is as likely to discover and formulate this price as is unrestricted competition. As with the settlement of wage rates, the collective procedure is conducive to stability, which is lost if bargaining results in endless alterations to suit

transient changes in the bargaining position of individuals; and stability is conducive to highly mechanized methods of production.

Such an alternative policy would require a faith (which is becoming rare) in the directing and disciplinary action of markets; though there are examples enough of cartels and commodity control schemes which broke down because they ignored the limits imposed by market conditions. It would imply, too, a faith in the virtues of freedom of contract which is also becoming rare. As recently as 1930, the Greene Committee introduced its report on resale price maintenance by saying " that the ordinary right of freedom of contract ought not to be withdrawn without some compelling reason." It is surprising that the experience we have had since then of Government direction of industry and price control should have so weakened faith in spontaneous contractual arrangements.

VI

There is, then, little ground for the assumption that the limited and partial action (regulation of output and price) of one element (private enterprise) in one part of the whole economy (manufacturing industry) is responsible for any large part of the post-war economic difficulties of the United Kingdom. The Monopolies Act is criticized for timidity and inadequacy; more probably it represents the impact of administrative difficulties upon enthusiasm.

The Act sets up a Commission to investigate trades or firms referred to it by the President of the Board of Trade; its duty is to investigate and report whether the firms investigated produce one-third or more of output of the trade investigated (the Act's only definition of " monopoly "), what forms of restriction they practise and the effect on " the public interest ". At the President's request the Commission has also to recommend measures to end any " mischief " they discover; legislation takes the form of a statutory order introduced by one of the Ministers concerned with economic affairs, which may declare a thing unlawful " either for all persons or for such persons as may be specified or described in the Order."

This procedure of *ex post facto* legislation to fit particular practices of particular firms, quite legal when they were entered into, but made illegal *ad hoc*, was put forward by its authors as one of the merits of the Act. Thus, the President of the Board of Trade, Mr. Harold Wilson, in the Second Reading debate:

> Some have suggested . . . that we should set out a definition of the public interest in the Bill. The Government have not thought it necessary or desirable to do this. I think every member of the House knows what he means by the public interest . . . I can sincerely inform the House that we have tried our best to work out such a definition and have failed. This is a matter that can, and should, be safely left to an impartial tribunal . . .

Again:

> Cases which may appear to be quite small in their initial effect . . . will serve as test cases on which the Commission can build up a useful case law.

Similarly the Lord President of the Council, Mr. Herbert Morrison:

> I think it has been accepted generally as a sound legal maxim that in this sphere, where opinions count, where judgement has to be introduced, it is somewhat unwise to interpose close definitions, because thereby one can limit the possibility of action precisely because it has been defined . . . we thought it right that the Commission must be the judge of the public interest. Indeed, the conception of what is the public interest may vary from case to case . . . to define the public interest would lead only to a legal tangle and would make difficulties for the Commission and the courts in the way of interpretation.

Without more guidance than the Act gives, it is difficult to see how any commission can be expected to discriminate consistently between practices and firms and formulate its *ad hoc* prohibitions. It is common enough for subordinate authorities to be left to fill in the details of general rules or principles embodied in a statute; but this statute does not provide the general rules. It neither makes monopoly as such illegal, as American law does; nor legalizes agreements in restraint of trade, while making illegal specified practices, as German Imperial law did; nor lays down any principles by which consideration of the " public interest " can be applied.

There is a half-hearted attempt at definition in Section 14: " all matters which appear . . . to be relevant " to be taken into account, and " amongst other things . . . efficient and economical means " of " production, treatment and distribution," increase of efficiency, fullest use of resources, technical development, and expansion of markets. But such platitudinous generalities afford little guidance. Parliament seems to have been less concerned with principles than with persons. It shirked the task of formulating principles by which a commission—or the Courts, if the Act had not been drafted to prevent any reference of its provisions to the Courts—could discriminate between cases. Instead, the Act proceeds by a sort of enumeration of agencies and persons. The chief areas in which " restrictive " practices occur—labour relations, services, and nationalized industries—are excluded. To industry so delimited the application is left to be further defined by

reference to persons, first by the President of the Board of Trade, in selecting and defining the trades for investigation, and then by the Commission in selecting and defining practices to be made illegal as contrary to the public interest. Reasonable certainty in the law is one essential condition of enterprise and investment. The business man can no longer ascertain from his legal advisers what arrangements he could legally make with his competitors or suppliers or customers, and what arrangements are criminal or unenforceable; his legal adviser can tell him what the law is now, but cannot tell what it may be if his business is referred to the Commission.

What the public interest requires in relation to monopolistic practices is far from clear. Exclusive dealing supported by boycott is condemned among traders; in the form of the closed shop, supported by the jurisdictional strike, it is open to any trade union and accepted by Government-owned industries. Differential prices are condemned in manufacturing industry; they are the inevitable basis of railway charges and are used by electricity authorities. The Co-operative "divi" is regarded by some suppliers as discrimination in favour of members; the societies deny this, maintaining that it is a way of distributing trading profits, not a discount on prices, though they maintain the opposite when it comes to liability to income tax. Resale price maintenance is denounced in electric lamps and groceries; but the newspapers doubtless expect their own practice of fixing the retail price of their papers to be retained, and the Government relies on the practice to keep down the prices of motor-cars. Quotas are regarded as destructive of enterprise and economy; they are the basis of the Agricultural Marketing Acts. "Loyalty" discounts and rebates are criticized as an obstacle to market assessment of values; the record of liner companies, which use them, is no less beneficial to the public interest than that of tramp companies which are more "competitive." Restriction of entry to trades is universally condemned; there is restriction of entry in the conditions (even conditions of education and training) which the professions impose upon entry. If conditions are necessary in order to guarantee professional standards and competence, collective regulation may be necessary to protect quality of product and ability to carry out contracts entered into.

The difficulty which faced the authors of the Act is that monopoly and restrictive practices are not inherently bad, not in all circumstances contrary to the public interest. It would have been embarrassing to ban them outright. No doubt an

attempt to formulate principles of public interest by reference to which the use of monopoly or restrictive practices could be judged would have been difficult; but there was no escape from it if the resulting law were to be both consistent and equitable as between one citizen and another. Difficulty is no excuse for not making the attempt: it is the function of legislation to define the public interest. If an agreed definition cannot be reached, it is better not to legislate.

VII

Any attempt to systematize the existing law raises the whole question of the status and practice of trade unions (thrown back into confusion by the repeal of the Trade Union Act of 1927), the organization and practice of the statutory monopolies set up to administer nationalized industries, the privileges of the professions, retail sale margins, and the policy of forcing the sale of agricultural produce through marketing boards dominated by farmers; as well as the mixture of statute and case law under which existing associations and agreements in private industry and commerce have come into existence.

The Government might be excused if it postponed so wide an issue. It could, however, by concentrating on one change, remove the chief anomalies of the present Act, while leaving the Commission a practicable and useful function. At present, the Act imposes on the Commission a task which combines and confuses investigation, judgement, and legislation. These functions are better kept separate; their separation would follow if Section 10 of the Act were repealed. This is the Section which empowers Ministers to embody the recommendations of the Commission in Orders which, when approved by Parliament, make unlawful the agreements or arrangements specified. The repeal of this Section would restore the Commission to the status of an investigating body—the original intention, one suspects. Its procedure would be that of a commission of enquiry; its object to inform Parliament on a difficult and complicated subject-matter, so that Ministers could draft and Parliament consider with knowledge a general Bill.

So long as the Commission has to judge individuals, not merely pronouncing their practices contrary to the public interest, but providing also for a statutory order making the practices illegal for the individuals specified (though not necessarily for others), it will have to give the persons investigated the opportunity of defending themselves against such

discriminatory treatment. They will expect to be told specifically what the complaint against them is and why it is contrary to the public interest; they will expect the Commission to consider only evidence disclosed to them, so that they can criticize it, and, if they wish, cross-examine the informant. This formality, essential to prevent injustice, is expensive of time, and inapplicable to much with which a commission of economic enquiry is concerned. It is Parliament's business to make up its mind what practices in what circumstances should be made illegal, and the business of the Courts to enforce the new law.

Industry also should be relieved. At present, the consequences of an enquiry under the Act may be to render illegal practices which the industry concerned believed to be both legal and in the public interest. If there is a risk that its normal business will be dislocated, any industry will give priority to the Commission's claims on the time and attention of its leading executives, its accounting staff, and its scientific experts. There are few large concerns which do not supply, process, or export a third of some description of goods; although the Commission can investigate only a fraction of industry, few important industrial concerns can ignore the possibility that it will be their turn next. In the present position of the country's affairs, the claims of exports and defence might have been given priority.

At the same time, another change should be considered—a change that would do something to shield industry from the political investigation which approaches industry in the spirit of "See what baby is doing and tell him not to." Since its function will be confined to investigation and time is limited, it is important to concentrate on the investigations which will contribute *most*, and *in least time*, to an understanding of the working of monopolistic practices and the principles on which regulation should be based. The Commission, therefore, and not the President of the Board of Trade, should be responsible for selecting the industries and practices to be investigated; and, in pursuit of its aim, should not be excluded from those parts of the field of economic activity—services, Government monopolies, agriculture and industrial relations—in which restrictive practices are most likely to be found.

HENRY CLAY.

Oxford.
March, 1952.

Tea Industry Problems

By Sir Percival Griffiths

SINCE we are a nation of shopkeepers it is not unnatural that trade should have dominated all aspects of our history, and this domination is admirably illustrated by the part which tea has played in our national development. It was one of the biggest factors in the growth of the East India Company; it led to the great improvement in shipping design associated with those romantic ships, the "Clippers"; it was an agent in the loss of the American colonies; it was perhaps the most powerful incentive to the establishment of the great Calcutta agency houses in the nineteenth century; and in more recent times it sustained the courage of the British people through the strains and stresses of the Second World War. Throughout the world today, the British are known by three characteristics: inability to open conversation in a railway train, obsession with games and fondness for tea. Not only do the British drink more tea than any other people, but the Commonwealth is also its principal grower, followed very efficiently—but a long way behind in terms of quantity—by the Dutch. Tea is, in fact, the most important export from India and Ceylon produced by concerns under British management—a vital element in their national economy.

It is therefore worth while considering the troubles which beset the tea industry today, even though they conform so generally to the familiar pattern of rising costs, labour indiscipline, crushing taxation and excessive Governmental control. In the tea industry, however, the effect of these troubles is heightened by another set of factors closely connected with the recently awakened nationalism of South-East Asia. We are not concerned in this article with China—which requires quite separate treatment—nor, except incidentally, with East Africa, but shall confine our discussion to the great tea-producing countries of India, Pakistan, Ceylon and Indonesia.

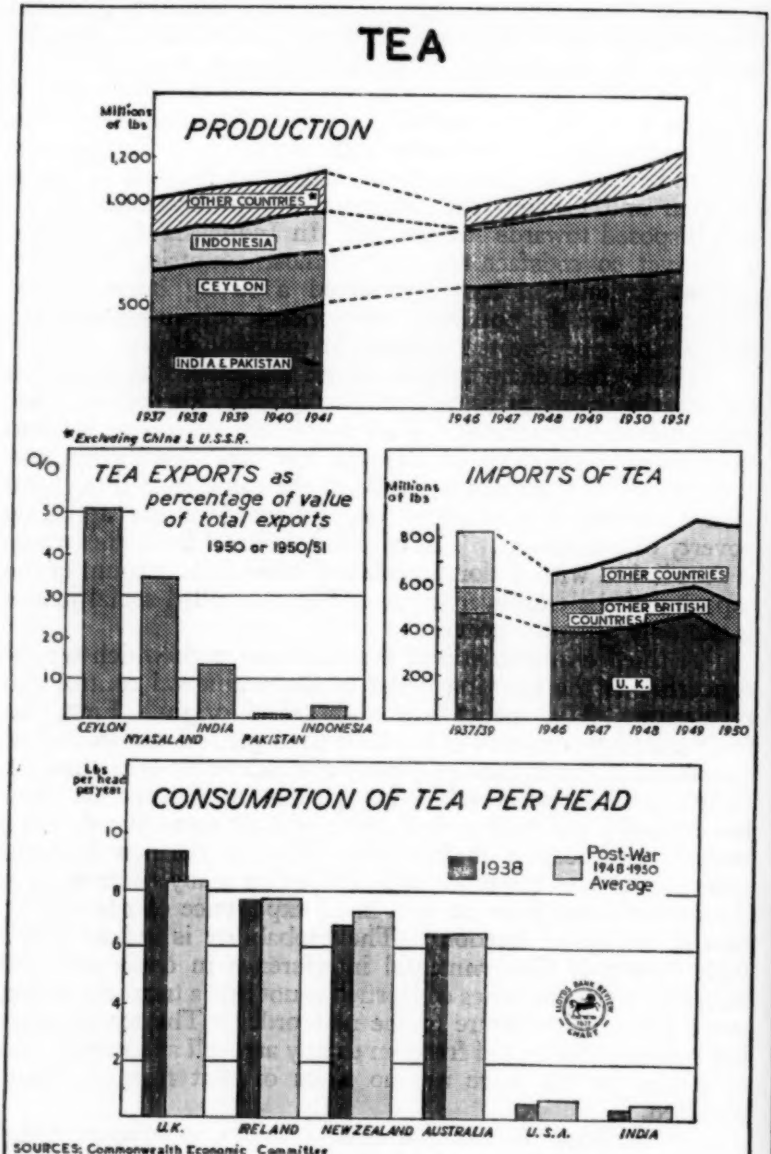
Apart from the obvious climatic similarities, there are several important respects in which conditions affecting the tea producer are alike in all those countries. In the first place, all have recently acquired independence, in some cases after

a protracted and bitter struggle. There was, therefore, an initial risk that pronounced nationalism would lead the new Governments on the one hand to over-estimate their own power and resources and on the other hand to suspect the old imperial peoples of hoping to maintain an economic domination even though their political authority had disappeared. Fortunately, time and experience have softened this suspicion and in India, Pakistan and Ceylon, the people and the Governments are well disposed towards the British. In Indonesia the position is not yet so satisfactory. In all these countries, however, nascent nationalism has engendered a strong belief in the desirability and the possibility of economic self-sufficiency and this impinges on the tea industry at many points.

The second characteristic of the tea-producing countries today is the strong pressure from two quarters for the economic reorganization of society. Workpeople are no longer isolated from outside currents of thought and are developing new conceptions of their rights, while at the same time thoughtful men have become conscious and ashamed of the appalling poverty of the masses. The constant demand for better wages is thus linked with national pride and takes little account of the capacity of the employer to pay. What is called social justice is the only accepted criterion.

A third characteristic of the countries with which we are concerned is the growing belief in Governmental control and regulation. That belief has a threefold origin. First, the tradition of government in the East is, in general, authoritarian. Secondly, in the formative period of modern Eastern thought, nationalists regarded left wing parties in Europe as their natural allies and so absorbed much of their economic thought, with its glorification of the State. Thirdly, the new Governments came into existence at a time when many controls were unavoidable and have no first-hand experience of administration in an age of freedom. The probability is indeed that a high degree of Governmental interference in commerce and industry in the countries concerned is not just a transient phase, but a permanent feature of the new order. The tea industry has lost much of its old freedom to buy and sell as seemed good to it and so far there are no signs of that freedom being regained.

In addition to these abstract factors, producers today suffer from certain new physical difficulties. Communications have seriously deteriorated in all the main producing countries


TEA
PRODUCTION
Millions of lbs
1,200
1,000
500
OTHER COUNTRIES*
INDONESIA
CEYLON
INDIA & PAKISTAN
1937 1938 1939 1940 1941
1946 1947 1948 1949 1950 1951
*Excluding China & U.S.S.R.
TEA EXPORTS as percentage of value of total exports
1950 or 1950/51
%
50
40
30
20
10
CEYLON
NYASALAND
INDIA
PAKISTAN
INDONESIA
IMPORTS OF TEA
Millions of lbs
800
600
400
200
OTHER COUNTRIES
OTHER BRITISH COUNTRIES
U. K.
1937/39
1946 1947 1948 1949 1950
CONSUMPTION OF TEA PER HEAD
Lbs per head per year
10
8
6
4
2
1938
Post-War 1948-1950 Average
U.K.
IRELAND
NEW ZEALAND
AUSTRALIA
U. S. A.
INDIA
SOURCES: Commonwealth Economic Committee
Tea Bureau

except, perhaps, Ceylon. The unhappy relations of India with Pakistan at one time made transport between Assam and Calcutta slow and difficult, but of late there has been some improvement.

There has also been a marked deterioration in the maintenance of law and order in some areas. In Indonesia, disorder is severe and widespread. In India, although the success of the new Government in maintaining tranquillity in general has been remarkable, there are troublesome localities and it would be unreasonable to expect that the police authorities in the tea districts should act in emergencies with the same promptitude and vigour as formerly. In the North Bengal tea districts, for example, there is a growing sense of insecurity and the local officials seem powerless to check notorious troublemakers, even when their activities lead to violence.

EARLY DEVELOPMENT OF THE INDUSTRY

The political and economic background of the tea districts has thus wholly changed since 1939. If we are to understand the new situation we must first remind ourselves how the tea industry grew up. The common assumption that Governments are never enterprising while business men are ever on the watch for new opportunities is not borne out by this case, for in both India and Indonesia the discovery and demonstration of the possibilities of tea growing were solely the work of official agencies. In Indonesia this took place as part of the planned economy which was the basis of the Dutch colonial system, while in India the motive forces were the East India Company's loss of the China trade, the continued demand of the British public for tea and the determination of an outstanding Governor-General, Lord Bentinck. When the Governments had shown the way, British and Dutch capital was soon attracted. In India, so successful were the early tea companies that a wild speculative mania broke out in the 'sixties and we are told by a writer of that period that " tea planters were a strange medley of retired or cashiered army and navy officers, medical men, engineers, veterinary surgeons, steamer captains, chemists, shopkeepers, stablemen, used-up policemen, clerks and goodness knows who besides." The inevitable crash came quickly, bringing ruin to many. The tea industry was purged of unhealthy elements and those who remained were true pioneers, prepared to cut their way through jungle hitherto deemed impenetrable, to

build roads as they cleared, to cope with the ravages of wild beasts and tropical diseases and to hold together by sheer personality a labour force which was often despondent and demoralized.

In Ceylon, the stimulus to tea production came from the destructive effects of the great coffee blight in the 'seventies. While many of the coffee planters went to Malaya, others took to tea cultivation in Ceylon and after a period of hardship achieved remarkable success. During this period, engineering knowledge began to be applied to the tea industry in all the producing countries, and the primitive methods of manufacture, brought originally from China, were replaced by a more scientific technique. Production grew rapidly and by 1905 exports from India, Ceylon and Indonesia had reached 412 million pounds a year. At the same time, the gradual softening of manners, particularly in Victorian England, led to an ever increasing demand for tea in place of hard liquor. Demand and production thus grew simultaneously and the prospects of prosperity for the industry seemed boundless—until world conditions arising out of the First World War over-stimulated development. New areas were brought under cultivation and production in excess of the world's normal demands resulted in a serious fall in prices as soon as war conditions came to an end. Indian producers voluntarily regulated production and from 1921 onwards the industry again prospered. By about 1927, however, the additional land taken into cultivation during the War was in full bearing and when world purchasing power began to fall the industry was badly hit. The price of common teas fell to 6d. a lb., which was rather less than the cost of production, and many companies found themselves in difficulties.

By this time the industry was highly organized and in 1930 producers in India, Ceylon and Indonesia collaborated in a scheme for the limitation of crops. This scheme was not wholly successful and in 1933 it was replaced by an international agreement between the Governments of the three countries limiting extensions of tea cultivation and providing for annual regulation of exports in relation to world demand. Before long, the East African producers joined the regulation scheme, which was strictly honoured and had the desired result of stabilizing prices. It has been generally recognized that the agreement was worked with the utmost fairness and that no attempt was made to enhance prices artificially by keeping the

world short of tea. With slight modifications, and in spite of the defection of the East African countries, this agreement has remained in force ever since, though shortage of tea resulting from the troubles of Indonesia in and after the War has made the operation of the export control largely nominal.

The regulation of exports was regarded by producers as only a palliative; the true remedy, it was recognized, lay in an expansion of consumption. In 1933, the International Tea Committee, set up by the principal producing countries other than China, established the International Tea Market Expansion Board to conduct propaganda for the encouragement of tea drinking throughout the world. Those concerned were wise enough to recognize that sectional campaigns on behalf of Indian tea, Ceylon tea and so forth would not do, and that satisfactory results could be achieved only by a joint campaign in support of Tea as such. Strangely enough, the *per capita* consumption of tea in the countries where it was grown was at this time low and special efforts were required to teach people in India, Ceylon and Indonesia its virtues. These efforts resulted in a rapid increase in tea drinking, although it is still true that in proportion to their numbers, the people of India, for example, drink less than one-twentieth as much tea as the people of Britain. The scope for increased consumption in India is thus almost unlimited.

From about 1935, as a result of all these propaganda measures, the industry again became reasonably prosperous in spite of increasing production in Japan, Formosa and the U.S.S.R., which remained outside the regulation scheme. The position was also strengthened by the growing participation in the industry of nationals of the producing countries. The pioneer work had been done by European companies or individuals employing European managers and engineers, though capital was sometimes raised locally. Early in the twentieth century the nationals of India and Ceylon began to interest themselves in the finance and management of tea gardens and, while it is impossible to give exact figures, it is generally recognized that in 1939 Indian-controlled companies accounted for rather more than one-fifth of the acreage under tea in India. In Ceylon, the proportion of gardens owned by Sinhalese is probably rather higher. The European and non-European sections of the industry worked well together. It was thus well consolidated and in a strong position at the start of the Second World War.

EFFECTS OF THE WAR

Early steps were taken in advance to cushion the industry from that shock as far as possible. At the beginning of the War there was no reason to anticipate physical interference with tea production, but it was clear that shipping shortages and enemy occupation of Allied territories might interfere with normal marketing and make prices erratic. Britain was by far the most important consumer of tea and it was obviously in the interests of the British people, as well as of the tea industry, that steady arrangements for the supply of tea at non-speculative prices should be made. A scheme was, therefore, worked out before the War by which all teas required by Britain would be bought in bulk by the Ministry of Food, at prices based on pre-war prices of corresponding grades and qualities of tea, with annual adjustments on account of the increased cost of production. The arrangement, later extended to purchase on behalf of the U.N.O., operated throughout the whole war period to the general satisfaction of producers, the British Government and the British public, which under the stress of wartime found itself more dependent on tea than ever before.

The situation deteriorated considerably in 1942 when Indonesia was overrun by the Japanese and the world was thus deprived of about 160 million pounds of tea per annum. Severe tea rationing was introduced in most consuming countries and the tea industry in India, Ceylon and East Africa was strongly urged to step up production. This expansion was not easy to achieve. Most managers and assistant managers of tea estates were Europeans and a large proportion of them had either volunteered or been called up for service in the armed forces. Many gardens were thus left without adequate supervision, while at the same time it became difficult to obtain coal, oil, fertilizers, tea chests and the other essentials of production.

In the tea districts of North-East India the lack of supervision became even more serious when many of the key men in the industry were lent to Government for the construction of the aerodromes and roads which were vital to the defence of India and the recovery of Burma. Difficult though the conditions were, the industry responded magnificently and by 1944 India and Ceylon were jointly producing nearly as much tea as those two countries, together with Indonesia, had produced before the War. This necessarily meant some

relaxation of the meticulous pre-war plucking standards; all good companies resisted any tendency to what might be called "coarse" plucking, but quality necessarily suffered.

The position of the industry at the end of the War thus contained elements both of strength and of weakness. Profits had been stabilized and reserves maintained but, on the other hand, labour had acquired undisciplined plucking habits and factories had suffered seriously from replacement difficulties during a long period.

We must now turn to the problems which confront the industry in the post-war period and it will be convenient to classify them under the heads of production, sales, finance and world markets.

In dealing with the problems of production, special note must be taken of the position of Java and Sumatra. During the Japanese occupation of those islands, comparatively little deliberate damage was done to tea gardens. Since, however, the Japanese did not require the tea for themselves and the Dutch planters were all interned, labour forces were disbanded, bushes were neglected and in some cases tea lands were turned over to the production of food or cinchona, even though the factories were generally left intact. After the defeat of the Japanese, Indonesian Republicans secured possession of the tea districts and when they subsequently found themselves forced back by the first Dutch police action, they systematically destroyed tea factories, bungalows and machinery wherever they could. When the Dutch planters returned to their plantations in 1948 they found complete chaos. Machinery had been broken or dismantled; labour had disappeared; tea bushes were fifteen or twenty feet high, and in many places the planters themselves had nowhere to live. They began by building shacks for their own residences and reassembling their labour; then they embarked on the stupendous task of rebuilding factories and repairing machinery. For these purposes they had little suitable material to hand but, with true Dutch tenacity, they straightened twisted girders, propped up roofs and walls with bamboos and mended machines with odd pieces of wire and tin. While these repairs were going on, the field assistants were beginning to bring the tea bushes back into something like normal cultivation. It was not just a case of pruning but of a drastic cutting down and the fear was ever present in the minds of the planters that this severe treatment would encourage the spread of blister blight.

All this work was carried out under conditions of great insecurity: in some areas, raids by armed bands of republicans were of frequent occurrence. Nevertheless, remarkable progress was made and when the writer visited the tea districts of Java at the end of 1948 good tea was being manufactured, production was rapidly increasing and it looked as though the Indonesian contribution to world supplies would soon become considerable. Unfortunately, the turmoil which has increased since the grant of independence has seriously interfered with work on tea estates and the hopes entertained in 1948 have not been realized. Even on the most favourable assumptions it is clear that a considerable time must elapse before the contribution of Java and Sumatra to world tea supplies can approach pre-war figures.

LABOUR PROBLEMS

If the tea industry in the other producing countries has not had to cope with comparable obstacles it has nevertheless had to face difficulties of its own, particularly those connected with labour. One of the most important factors in the development of the industry was the cheapness of the labour employed in cultivation and manufacture and the consequent low price of the commodity. It is unlikely that tea would have become the national drink in this country if, instead of being one of the cheapest of beverages, it had cost, say, half a guinea a pound as a result of high labour charges. The low wages of tea garden labour were not due to some peculiar harshness or niggardliness on the part of the tea industry; they were merely a reflection of the low standard of living prevailing throughout the producing countries, particularly among agricultural workers. In recent years, the world shortage of food and raw materials has considerably improved the condition of the oriental agriculturist and it is this, rather than any political factors, which first brought about increased wages in the tea industry. The great majority of industrial workers in the countries with which we are concerned are not a separate, urbanized class, but are men from the villages who go into industry only if it pays them better to do so. Village conditions are still their measuring rod and any long-continued improvement in the condition of the cultivator must always react on wages in industry—particularly so in the tea industry, where the connection between the labourer and his village remains very close.

Apart from these considerations, tea producers have for some years accepted the principle that there is a minimum standard of living below which the labourer and his family must not be allowed to fall, and they have collaborated with the various Governments in expressing that standard in monetary terms. In Ceylon, tea garden wages are regulated by statute and rise and fall almost automatically with the prices of foodstuffs, while in India a somewhat similar result has been achieved by Tripartite Conferences of employers, labour and Government representatives. There too, minimum wage legislation is now in force. In Ceylon, some part of the labourer's wage has for long taken the form of grain sold at agreed prices below market rates. A similar system was in occasional use in India for many years, but during the War it was brought into general operation in order to screen labour from the effects of wildly fluctuating prices. Until recently, the system was not unduly onerous on the employer and together with "dearness allowance" it represented a reasonable increase in remuneration to compensate for the high cost of living. Last year, in certain important areas of India, notably Assam, Government grain procurement failed. Prices are therefore completely out of control and fantastic sums are being spent by the tea industry in making food available to the labour force.

The financial effect of these increases in the direct and indirect remuneration of tea garden labour is considerable, as will be seen from the following calculations. The total annual grain requirements of tea garden labour in North-East India alone amount to about 177,000 tons. At present this is sold to labour at Rs. 5 per maund [1] against a purchasing price which, during the last year or two, has averaged not less than Rs. 20 per maund. This represents an annual loss on foodstuffs of Rs. 75,000,000 (£5,625,000). The production of tea in North-East India being in the neighbourhood of 500 million pounds, it thus appears that the additional remuneration given to labour in the form of concession rice amounts to about 2¾d. per lb. of made tea. This figure takes no account of cash dearness allowance and in any case is now hopelessly out of date, for in recent months rice has had to be transported by air to the tea districts of Assam at an average cost which may be in the neighbourhood of Rs. 50 per maund.

Inasmuch as the upward pressure of wages is perhaps

[1] 1 maund = 80 lbs.

equally intense in all the producing countries it may not much affect their relative strength. There is, however, more room for doubt as to its probable effect on the ability of tea to compete with other beverages. Some experts maintain that tea has become such a necessity of life that its consumption does not greatly vary with its price. It is, however, quite clear that if any general fall in world purchasing power should lead to a reduction in tea prices, this situation could be met only in one of two ways. The first remedy would be the abolition of the present heavy export duties which are already exercising a deleterious effect on the position of tea companies, particularly in Ceylon and Pakistan. The Governments concerned must recognize that if prices begin to decline the burden of these duties will fall wholly upon the producer and must therefore be added to the crushing burden of general taxation which he already bears. Should prices fall by an amount greater than can be offset by abolition of the export duties, no alternative would remain but a reduction in the remuneration of labour—for an analysis of the profit and loss account of any typical sterling tea company will show that there is no margin from which the cost of such a fall could be met. In the circumstances contemplated, there would be no escape from the dilemma: either the remuneration of labour must come down or consumption will decrease and labourers be thrown out of employment.

Increased expenditure is not the only aspect of labour matters that is providing cause for anxiety at the moment. Equally serious is the indiscipline which is now almost normal. Asia today is in a ferment; her peoples are awakening to new conceptions of their rights and to a new realization of their power. For educated men and women this may be an ennobling and invigorating experience, but for illiterate labourers it is dangerous and disturbing. Since the bonds of authority have been loosened, they see no reason why they should not do what they please. Disliking control, they are often sullen and resentful—and in the background are the Communists, ever watchful in all the tea producing countries for opportunities to sow the seeds of trouble. Trade unions, which have been readily accepted by progressive employers, are not always helpful. Good labour leaders are few and far between and often the local union officials are neither able nor willing to restrain unreasonable demands. Lack of sound local labour leadership is one of the most serious troubles in India

and Ceylon today and it is made even worse by the fact that the Governments concerned seldom seem able to speak firmly to labour or to restrain those who seek to make trouble.

Labour is thus both expensive and at times troublesome. One way of minimizing the difficulties may perhaps be the utmost possible mechanization of the processes of cultivation and manufacture. Much thought is now being given to this problem. In all the tea growing countries considerable sums are being spent on scientific research. There are, however, obvious difficulties. It is, for example, not easy to see how the selective plucking, on which price and quality partly depend, can be done by machine. Nevertheless, in view of the ever increasing cost of labour, many thoughtful proprietors regard mechanization as the only hope of survival. This is only one of the many scientific problems with which the industry is grappling today.

Anxieties about personnel are not now limited to labour, for they extend also to the managerial staff. In the first place, there is the constant demand that Europeans should be replaced by nationals of the countries concerned, or at any rate that European recruitment should be cut down to very limited proportions. Most British agency houses are sympathetic to national aspirations but they cannot ignore the fact that for some unexplained reason many British people have a peculiar flair for planting and for handling labour sympathetically but firmly. It is not always easy to find Indians or Pakistanis or Sinhalese or Indonesians with that particular ability who are also ready to go through the many years of sweaty drudgery which alone make a good planter. There is only one way to learn about tea—and that is to stand in the sun and the rain seeing the job done. Young men from Eastern countries often want to skip or curtail this rather unpleasant process. This is not a valid reason for doing nothing, but it does mean that Indianization, or Pakistanization or Ceylonization is not easy and cannot be rapid. Nor can it ever be a 100 per cent. process, for in that case British business would cease to be British—a result desired by nobody.

The second difficulty in the sphere of management is that with the present high cost of living and heavy taxation the possibility of accumulating large sums of money—formerly one of the attractions of life in the East—no longer exists.

Most big companies are trying to improve the terms of their senior employees for they recognize that the biggest danger to British business in the East is that it should die of inanition because young people from this country no longer find life there so attractive as formerly.

TEA AUCTIONS AND RATIONING

All the efforts of the industry are, however, only a means to an end and that end is the sale of tea. We must, therefore, consider the situation arising out of the resumption of the London tea auctions and the prospects that it involves. Before the War, about 40 per cent. of the world's tea was sold in the London auctions, the next most important auction market being that in Calcutta. During the War, for reasons already explained, the British Government bought tea at the ports of the producing countries. When the War ended, the Governments of those countries assumed that sale arrangements would at once revert to normal and were extremely surprised when the Ministry of Food insisted on continuing bulk purchase. The Indian reaction was particularly strong, and as the end of the War coincided with a phase of acute economic nationalism the decision of the Ministry of Food naturally suggested the possibility of letting Calcutta replace London as the world's main tea centre. Similar ideas were entertained in Colombo and for a time it seemed possible that India and Ceylon would not allow tea to be shipped to London before sale. The temptation to follow such a course was strong. It would have meant the establishment of all the ancillary professions and businesses that attend on auctions; it would have value from the point of view of prestige and in India it would create a favourable tax situation for the Government of that country. The tea producers in both India and Ceylon were, however, convinced by pre-war experience that the London auctions were vital to tea interests, partly because world tea drinking habits were largely based on blending the teas of the various producing countries, partly because the existence in the London auctions of a large number of small buyers exercised a salutary influence on prices. These arguments were eventually recognized as sound by the Governments concerned and London auctions were re-opened on April 16th, 1951.

In some respects, however, these auctions have rightly been described as "phoney." The essence of a genuine auction is that bidders should be guided solely by their

commercial judgement and by the laws of supply and demand as to how much to buy and what price to pay. No such freedom exists in the London tea auctions today. First, the statutory control of retail prices in effect fixes a ceiling to auction prices—and surely an auction with an upper limit is a contradiction in terms. Moreover, since the packet price of each grade is fixed by order, a buyer has to be careful not to buy too much high quality and therefore expensive tea. Prices are thus damped down in relation to quality and there is not much incentive to the producer to send his best teas to England when he can sell them elsewhere without any artificial ceiling.

Far more serious, however, has been the limit on the amounts which, up to March 26th, might be bought. The matter is too technical for detailed discussion here but it may be stated that in any monthly period a registered buyer could buy only his 'entitlement', *i.e.* the amount he was expected to sell in order to support the ration. This system might have worked satisfactorily if tea of uniform quality came in at an unchanging rate throughout the year. Unfortunately, this is not the case. Let us take, for example, the case of Ceylon. Very high quality teas come from Ceylon in January, February and March and they should fetch high prices. Normally, a buyer would pay well for them and would then release them gradually for blending with the more ordinary quality throughout the year, thus providing a reasonably uniform brand of tea at a fairly constant cost price. Under the 'entitlement' system he could not do this. He had to sell what he bought *seriatim* or the rationing scheme would have broken down; hence he could only buy, in each 'entitlement' period, tea which went at once into packets. If he paid for the Ceylon teas in January, February and March a price commensurate with their quality in relation to the rest of the year, the packet teas made for those three months would cost more than the maximum permissible retail price.

Similar arguments apply to high-class Indian teas. The system thus effectually damped down the price of such teas and encouraged producers to send most of their quality teas elsewhere, reserving the medium and common teas for Britain. The abolition at the end of March of monthly 'entitlements' is one remedy for these two difficulties but they cannot be fully overcome without the removal of the wholly unnecessary

price control. The case for price decontrol is, therefore, now stronger than ever. It is unlikely that this would produce any spectacular rise in prices but it would provide the elasticity which is essential in a satisfactory auction ; and since a pound of tea makes, on an average, two hundred and forty cups, the effect of this change on the cost of living would be negligible.

The recent abolition of the subsidy is accepted by the industry as being the first step towards removal of price control and towards an increase of the ration. Tea stocks in the United Kingdom have risen considerably of recent months and experts consider that the weekly ration could safely be raised to 2½ oz. That, in its turn, would prepare the way for complete derationing a little later. It is the considered view of the leading producers that an early return to a completely free market is essential to healthy development of the industry.

Another serious difficulty of tea companies in the post-war world is the provision of finance. In North India, tea is seasonal and even in the other producing areas there are considerable variations in the volume of production from one season of the year to another. The revenue of a tea company thus comes in very unevenly, and it has always been the practice, therefore, for tea companies to finance their production by bank overdrafts for about half the year. Recently, this has become more difficult on account of the considerable increase in the cost of production. The big banks regard the tea industry as a valuable customer and go as far as possible to meet its needs. They cannot, however, go the whole way and so today many tea companies whose financial position is thoroughly sound find themselves in difficulties with regard to their liquid resources. It is not easy to see any way out of this difficulty, though in India the Government might help considerably by a relaxation of the present system under which excise duty has to be paid when the tea leaves the factory, many months before the date of sale. In that country further help could be given if Government would accept its proper responsibility for making foodstuffs available to labour and release the producer of the burden of laying out vast sums of money for this purpose. Most tea companies have on the whole followed a conservative financial policy, have not paid excessive dividends or failed to build up reserves in good years and cannot be held to have contributed to the financial difficulties which they now experience.

EXPANDING DEMAND

In the long run, the soundness of the tea industry must depend on the maintenance and expansion of world demand. Most tea producers therefore regard the International Tea Market Expansion Board as the cornerstone of their hopes. That body has behind it vast experience and has built up teams of experts all over the world. Its methods necessarily vary from country to country, but perhaps the most striking of its campaigns are those in the U.S.A., Britain and Africa. In the U.S.A., the industry has to face tremendous competition from other beverages with great advertising resources behind them. The tea trade in America has itself, however, joined hands with the Board and its collaboration with the Board on a dollar for dollar basis is evidence of its conviction that consumption in the U.S.A. can be substantially increased. In Britain, the problem is wholly different and the task of the Board here since the War has been rather to see that tea is available and well made wherever people want it outside their own homes. Several years of patient collaboration by the Tea Bureau with industry and with public bodies are beginning to pay dividends and there is reason to hope that consumption will exceed the pre-war level when rationing is removed. In Africa, the Board's work is more in the nature of a consumer campaign and already it is becoming clear not only that the peoples of Africa can be taught to appreciate the virtues of tea, but also that they are prepared to pay an adequate price for good tea.

The world over, indeed, scope exists for a growth in tea consumption which, if realized, would provide growers with an expanding market for many years to come. In spite of all the difficulties of labour, personnel, 'phoney' auctions and finance, the leaders of the industry are able to look forward with reasonable confidence.

P. J. Griffiths.

London.
March, 1952.

Statistics : Explanatory Notes

Unemployment.—Although there has recently been some increase, especially in those temporarily stopped, unemployment in February was still less than 2 per cent. of the total number of employees. On a regional basis, however, there are some differences, the unemployment rate for Wales, in particular, being noticeably higher than the national average. The second half of 1951 also saw a marked increase in unemployment in the East and West Ridings of Yorkshire, no doubt a reflection of the falling off in home demand for textile goods—by December last, unemployment in the clothing industry had risen to 4 per cent., from only 1 per cent. a year earlier.

Retail Trade.—The recent check in demand for some lines of retail goods is evident from the charts on page 49. These show, on a percentage basis, the changes each month in the value of sales and stocks compared with the same month a year previously. Thus, sales of furniture and fittings each month from August last have been lower than in the same period a year ago, while stocks have been higher in value. Apparel sales last autumn were also below the figures for the same months of 1950, with a corresponding rise in stocks ; while in the case of food, both sales and stocks have been higher than twelve months previously.

U.K. Overseas Trade.—The deterioration in our overseas trading account that took place in 1951 is evident from the charts on page 50. For the year as a whole, imports exceeded exports by as much as £1,200 millions, over three times the figure for 1950 and mainly due, as the last chart brings out, to the much higher prices we had to pay for our purchases abroad. There was also a noticeable expansion in the volume of imports last year while exports, in contrast, increased only slightly in volume.

German and Japanese Competition.—The growing competition of German and Japanese products with U.K. exports in some leading Continental and Asiatic markets is brought out by the charts on page 51. Although the proportion of imports from Germany for the European countries shown is still less than pre-war, it has been rising significantly in recent years and, in certain cases, now exceeds the figure for imports from this country. In Asia, the countries covered by the charts have all been obtaining a greater proportion of their imports from Japan than was the case before the War, while in India and Pakistan and in Malaya there has, moreover, been a decline in the proportion supplied by the U.K.

Textiles.—Although production of cotton yarns has risen from the low level at the end of the War, output in 1951 was still well below that for 1937 and only about half what it was before the First World War. The long-term trend of production of woollen yarns, in contrast, has shown comparatively little movement, while the output of rayon and other synthetic fibres doubled between 1946 and 1951. In value, textile exports last year reached a peak of nearly £500 millions, over three times the figure for 1946. In 1951, however, they accounted for about a fifth of total exports, compared with well over a third in the years up to the 'twenties.

Education.—The first chart on page 53 brings out the progressive increase in expenditure on education during the last half-century. By 1950–51, it is estimated, average expenditure per pupil in primary schools in England and Wales had risen to about £26 a year, while for secondary schools the comparable figure was not

far short of double this amount. The percentage of local rates spent on education has also shown a rising trend, although the percentage of central government revenue accounted for by education has remained comparatively stable. By last December, educational building completed since the end of 1945 totalled £116 millions while, at the same date, the value of projects still under construction amounted to £111 millions.

U.K. and U.S.A.—Comparisons of some major economic trends between this country and the U.S.A. are made in the charts on page 54. Industrial production in the U.S. last year was well over double the pre-war average, against an increase of about 40 per cent. in the U.K. Personal consumption in America is estimated to have been about 70 per cent. higher in 1951 than in 1938, whereas in this country the increase has been very small. The relatively greater dependence of the U.K. on international trade is evident from the last two charts. Although there has been a considerable increase in U.S. exports the enormous expansion in the American economy has been such that in 1951 exports are estimated to have been equivalent to only some 5 per cent. of the U.S. national income, against a figure of over 20 per cent. for the U.K. On the side of imports, the contrast is equally marked.

The Dollar Gap.—From the first chart on page 55 it will be seen that since the outbreak of the Korean war there has been an appreciable widening of the dollar gap, in contrast to the favourable trend that was conspicuous up to the third quarter of 1950. Even so, until the autumn of last year U.S. Government aid and other receipts from capital movements were more than sufficient to cover the gap, so that all other countries taken together were able to add to their gold and dollar reserves (last chart). For the sterling area, the third quarter of 1951 saw the renewed drain on our reserves, which by the end of February had fallen by over $2,000 millions from the peak touched on June 30th last.

Clearing Banks.—As will be seen from the charts on page 56 the Treasury bill funding operation of last November had a marked effect on the distribution of the clearing banks' assets. In particular, the percentages of deposits represented by liquid assets (cash, money at call and bills discounted) and by advances and investments taken together were brought considerably nearer to the ratios prevailing in the years before the War. Another important change has been the disappearance of Treasury deposit receipts. After declining each year since 1945, when they accounted for about two-fifths of total deposits, T.D.R.s were finally extinguished at the end of February last.

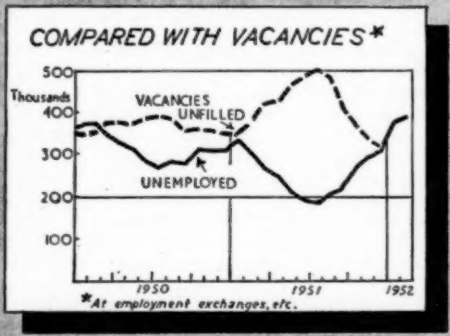
Government Securities.—The first chart on page 57, based on data prepared by a leading firm of stockbrokers, brings out the rise since 1946 in gilt-edged yields.

From the last chart it will be seen that, in spite of the enormous increase in the national debt, the percentage of Government ordinary expenditure accounted for by the cost of servicing the debt was not very much higher in 1951–2 than in 1914, and was considerably less than in the 'thirties. Expressed as a percentage of national income this cost has shown relatively little movement since the end of the First World War.

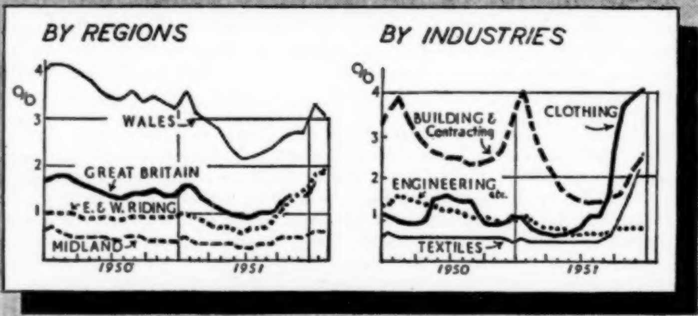
Agricultural Trends.—The increased dependence on home production, compared with pre-war years, for some important foodstuffs is brought out by the first chart on page 58. Thus, well over half of the total supplies of coarse grains available in 1951 was produced in this country, against less than 40 per cent. in 1936–9. Of other crops, it will be noticed that output of potatoes is considerably greater than before the War, while production of bread grains (wheat and rye) has shown a marked decline since the peak touched in 1943.

UNEMPLOYMENT

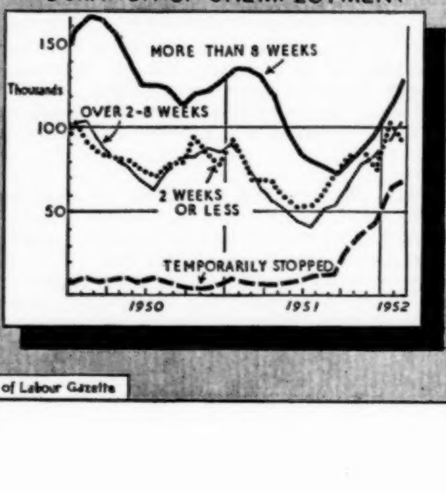
GREAT BRITAIN



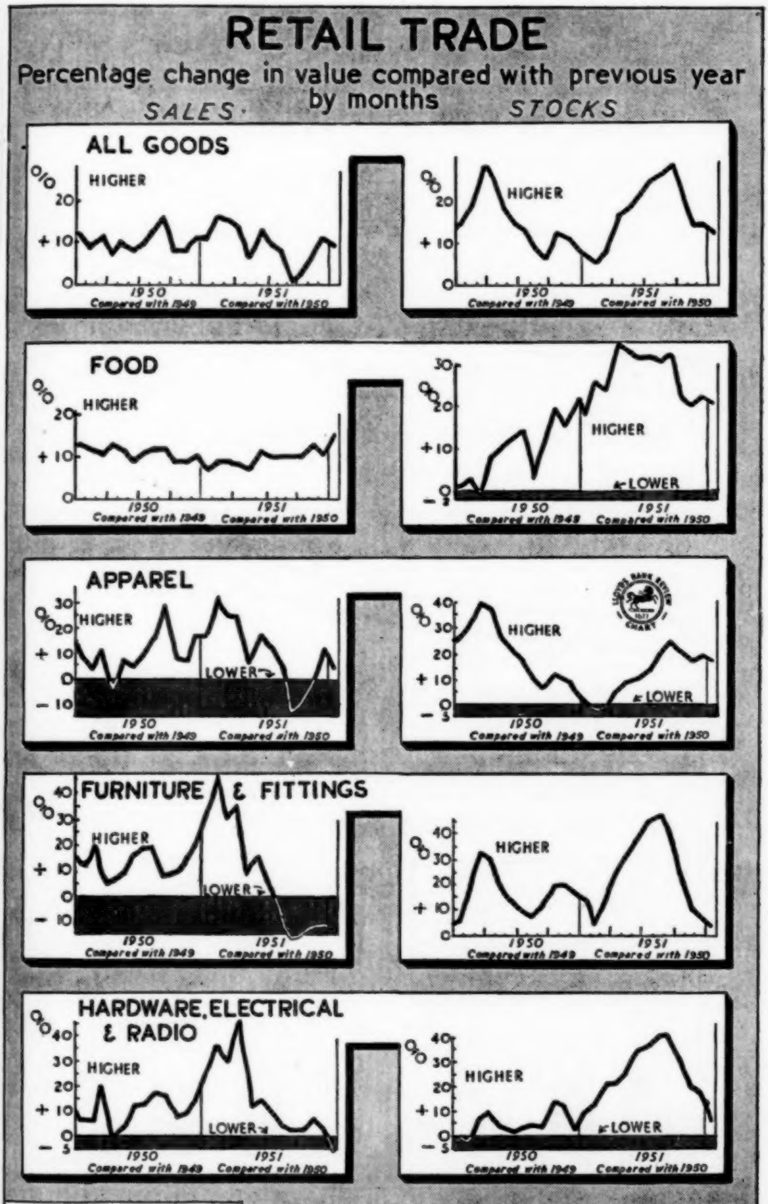
AS PERCENTAGE OF TOTAL EMPLOYEES



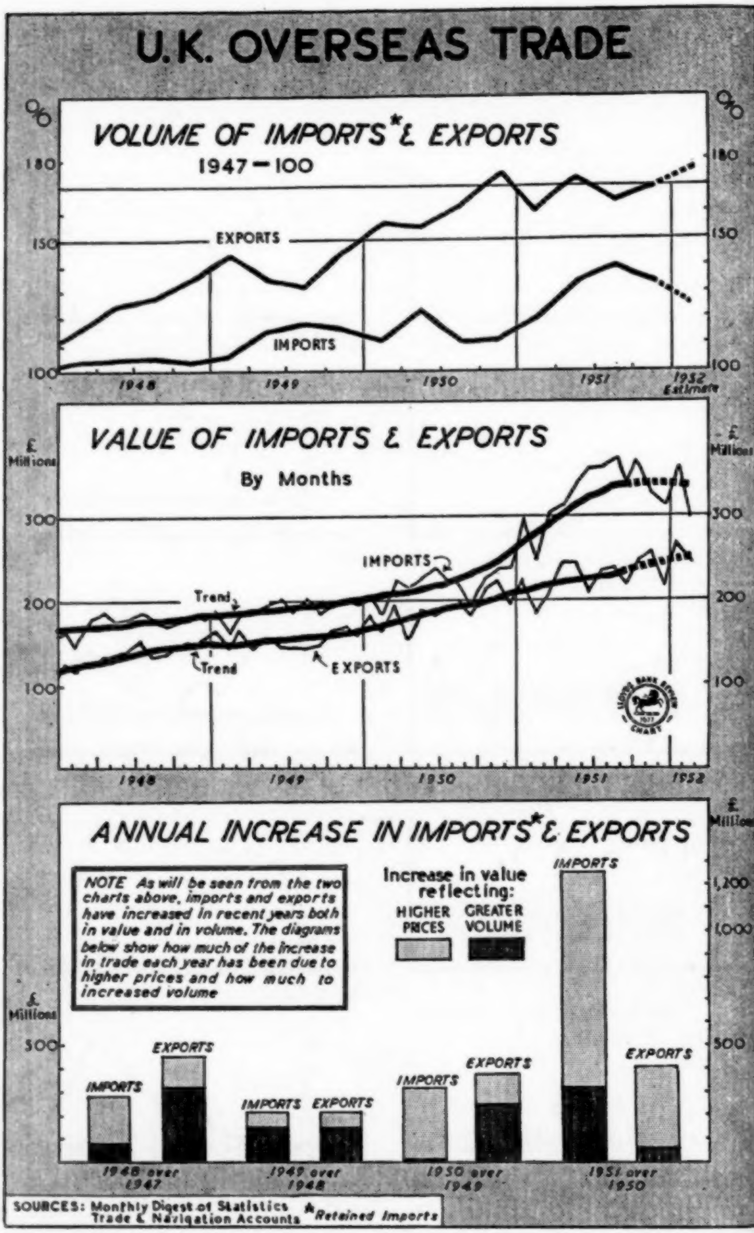
DURATION OF UNEMPLOYMENT



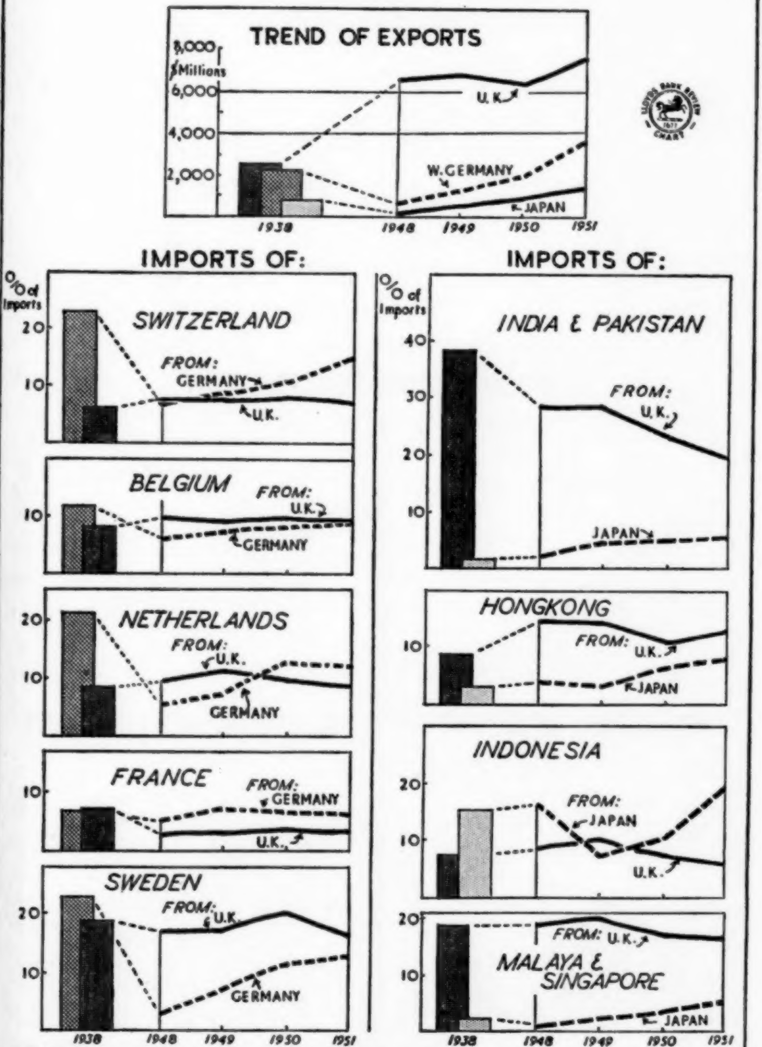
SOURCE: Ministry of Labour Gazette



SOURCE: Board of Trade Journal


U.K. OVERSEAS TRADE
VOLUME OF IMPORTS* & EXPORTS
1947 — 100
%
180
150
100
EXPORTS
IMPORTS
1948
1949
1950
1951
1952 Estimate
VALUE OF IMPORTS & EXPORTS
By Months
£ Millions
300
200
100
IMPORTS
EXPORTS
Trend
Trend
1948
1949
1950
1951
1952
ANNUAL INCREASE IN IMPORTS* & EXPORTS
NOTE As will be seen from the two charts above, imports and exports have increased in recent years both in value and in volume. The diagrams below show how much of the increase in trade each year has been due to higher prices and how much to increased volume
Increase in value reflecting:
HIGHER PRICES
GREATER VOLUME
£ Millions
1,200
1,000
500
IMPORTS
EXPORTS
1948 over 1947
1949 over 1948
1950 over 1949
1951 over 1950
SOURCES: Monthly Digest of Statistics
Trade & Navigation Accounts
*Retained Imports

GERMAN & JAPANESE COMPETITION

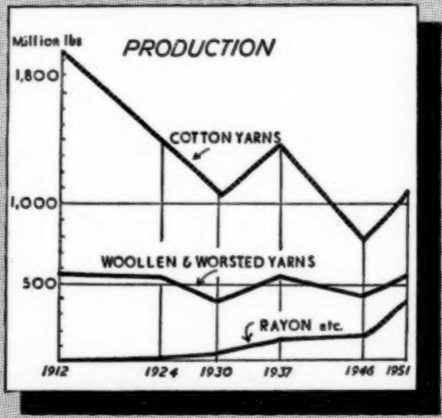


NOTE (1) European countries' imports relate to whole of Germany
(2) 1951 percentages based in most cases on import figures for less than full year

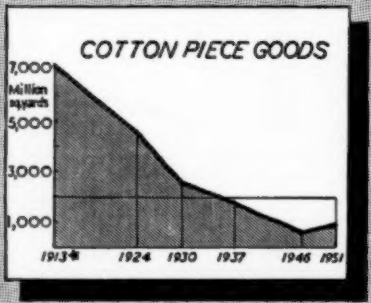
SOURCES: Direction of International Trade
International Financial Statistics.

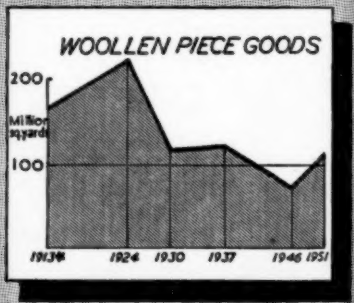
TEXTILES

LONG TERM TRENDS

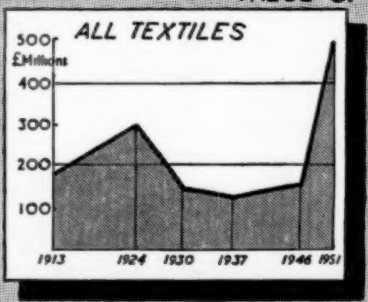


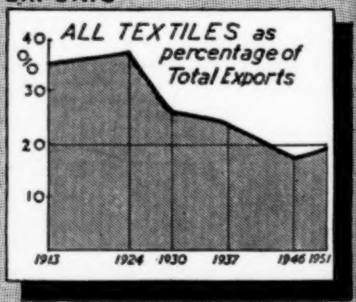
VOLUME OF EXPORTS





VALUE OF EXPORTS

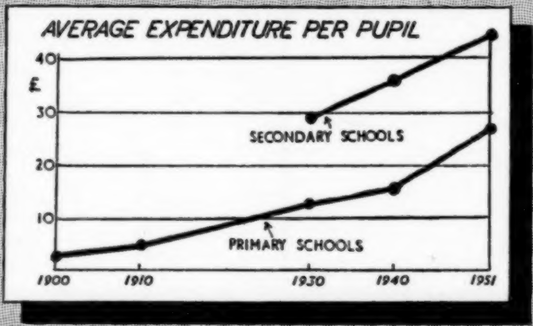


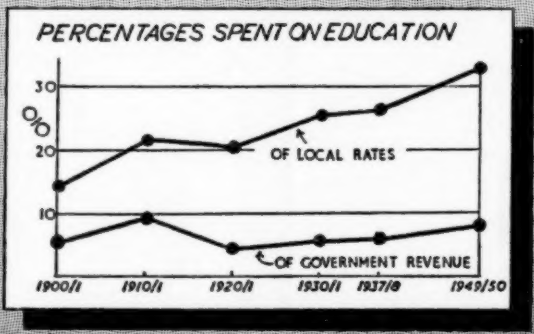


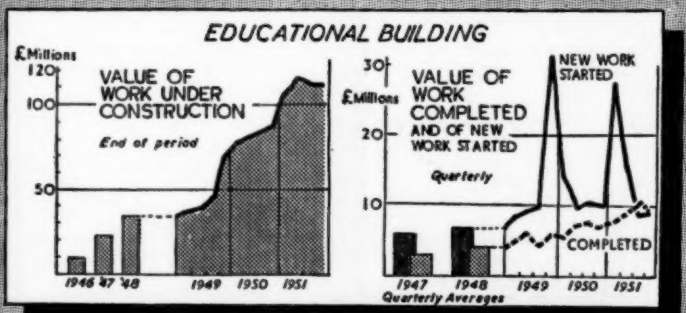
SOURCES: Working Party Reports
Annual Abstract of Statistics
* linear yards

EDUCATION

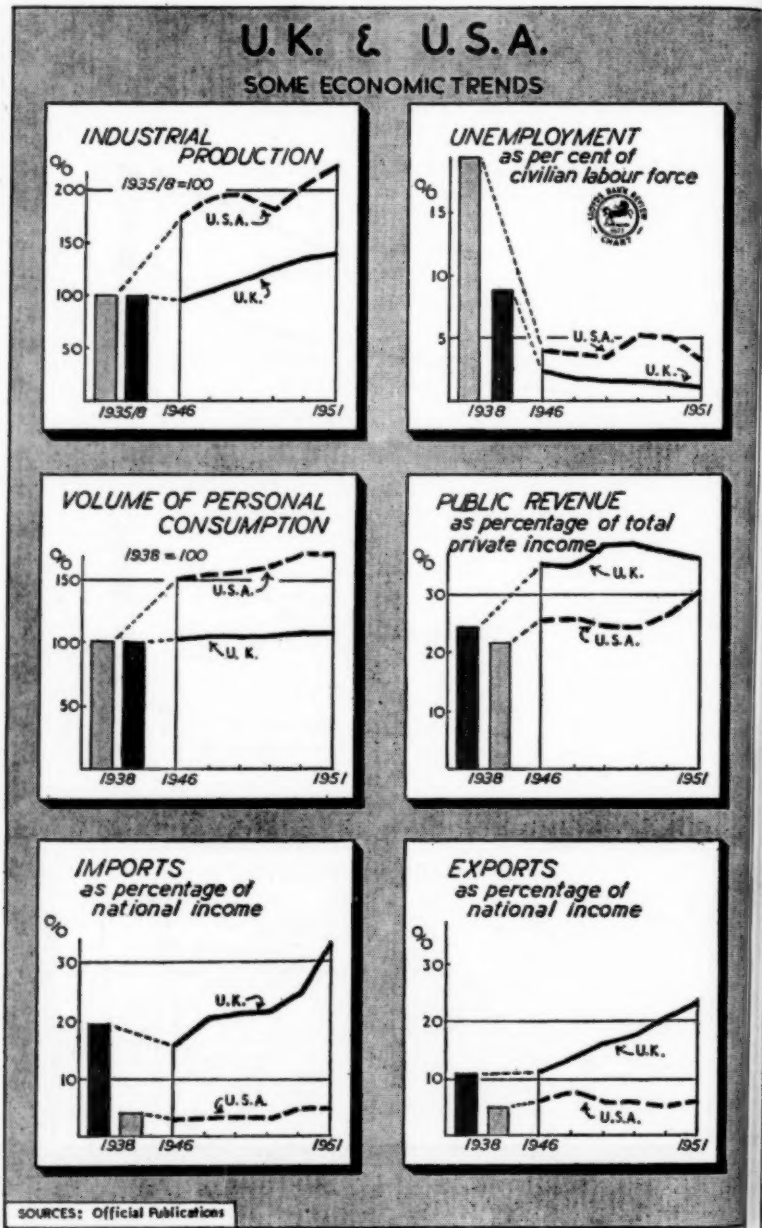
England and Wales

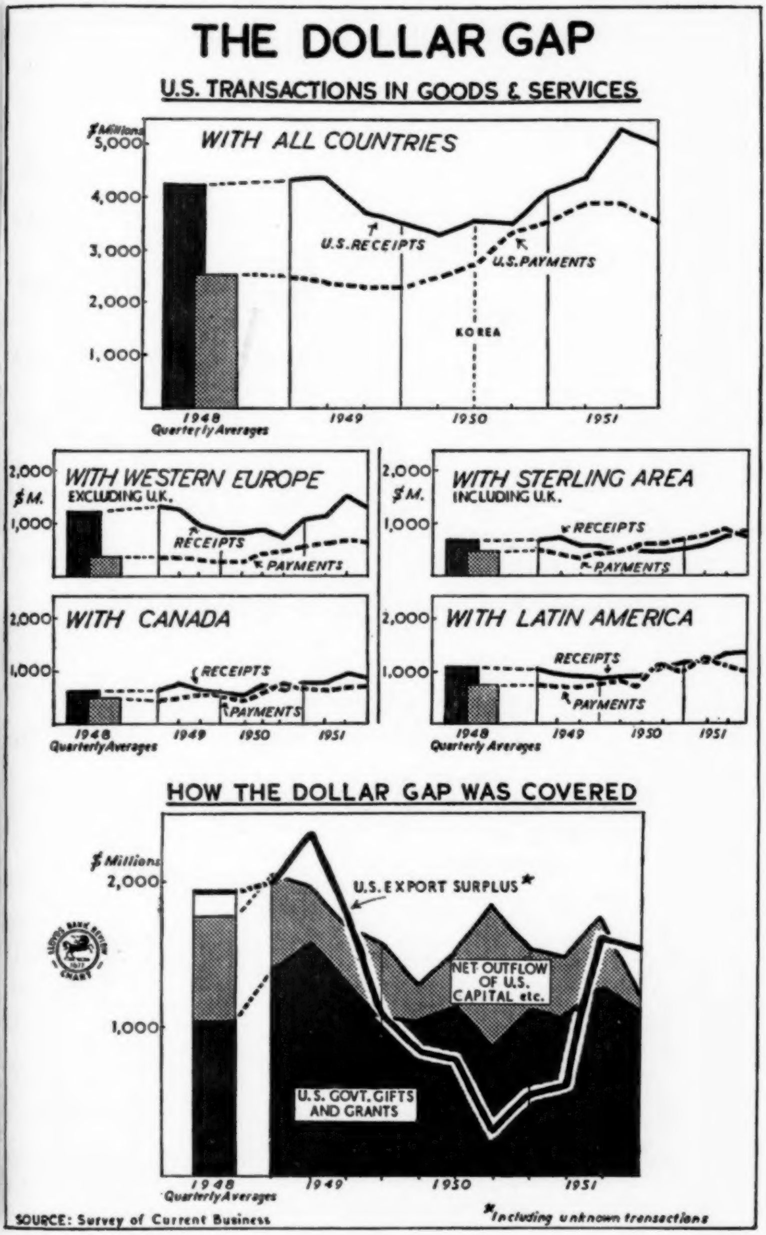




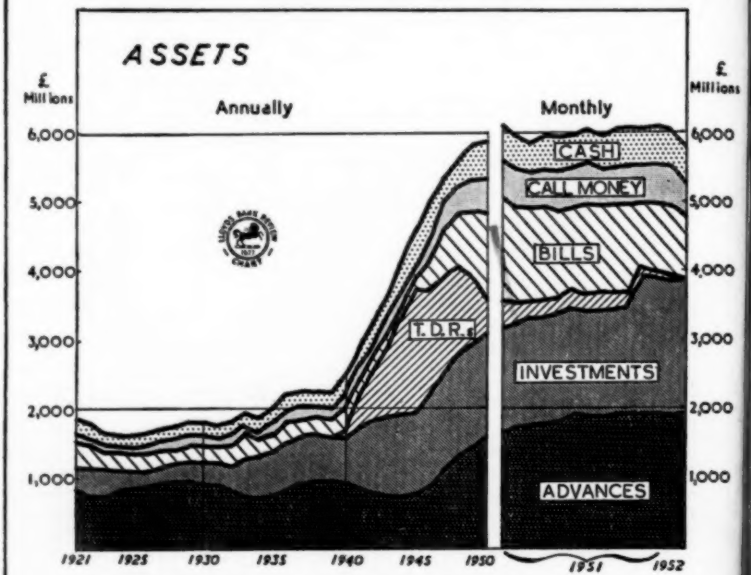


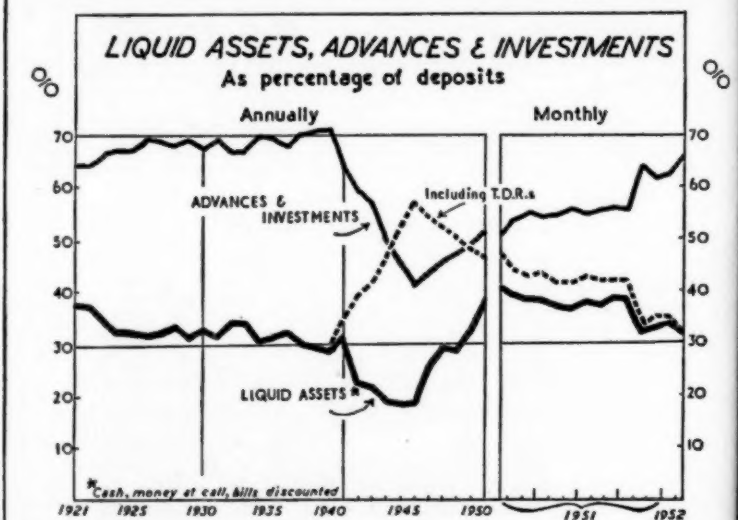
SOURCES: Ministry of Education Report, 1951,
Monthly Digest of Statistics,
Hansard, 31/1/52.


U.K. & U.S.A.
SOME ECONOMIC TRENDS
INDUSTRIAL PRODUCTION
%
1935/8=100
200
150
100
50
U.S.A.
U.K.
1935/8
1946
1951
UNEMPLOYMENT as per cent of civilian labour force
%
15
10
5
U.S.A.
U.K.
1938
1946
1951
VOLUME OF PERSONAL CONSUMPTION
%
1938 = 100
150
100
50
U.S.A.
U.K.
1938
1946
1951
PUBLIC REVENUE as percentage of total private income
%
30
20
10
U.K.
U.S.A.
1938
1946
1951
IMPORTS as percentage of national income
%
30
20
10
U.K.
U.S.A.
1938
1946
1951
EXPORTS as percentage of national income
%
30
20
10
U.K.
U.S.A.
1938
1946
1951
SOURCES: Official Publications


THE DOLLAR GAP
U.S. TRANSACTIONS IN GOODS & SERVICES
$ Millions
WITH ALL COUNTRIES
5,000
4,000
3,000
2,000
1,000
U.S. RECEIPTS
U.S. PAYMENTS
KOREA
1948
Quarterly Averages
1949
1950
1951
WITH WESTERN EUROPE
EXCLUDING U.K.
2,000
$ M.
1,000
RECEIPTS
PAYMENTS
WITH STERLING AREA
INCLUDING U.K.
RECEIPTS
PAYMENTS
WITH CANADA
RECEIPTS
PAYMENTS
WITH LATIN AMERICA
RECEIPTS
PAYMENTS
HOW THE DOLLAR GAP WAS COVERED
$ Millions
2,000
1,000
U.S. EXPORT SURPLUS *
NET OUTFLOW OF U.S. CAPITAL etc.
U.S. GOVT. GIFTS AND GRANTS
SOURCE: Survey of Current Business
* Including unknown transactions

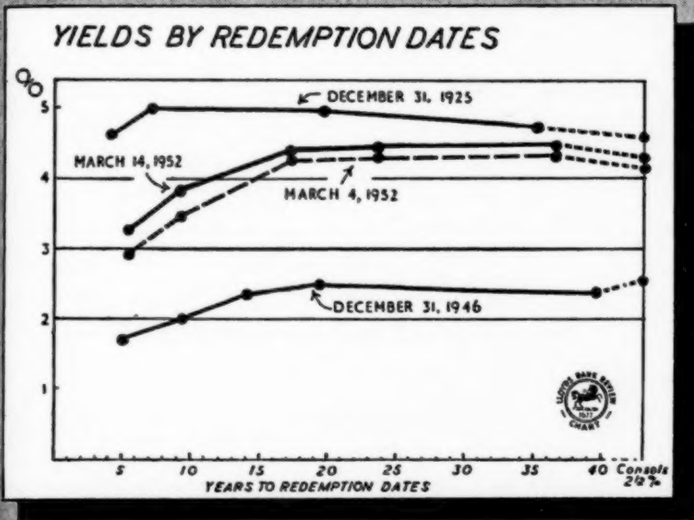
CLEARING BANKS

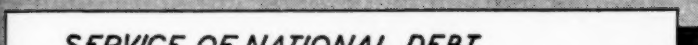




SOURCE: Clearing Bank Monthly Statements

GOVERNMENT SECURITIES

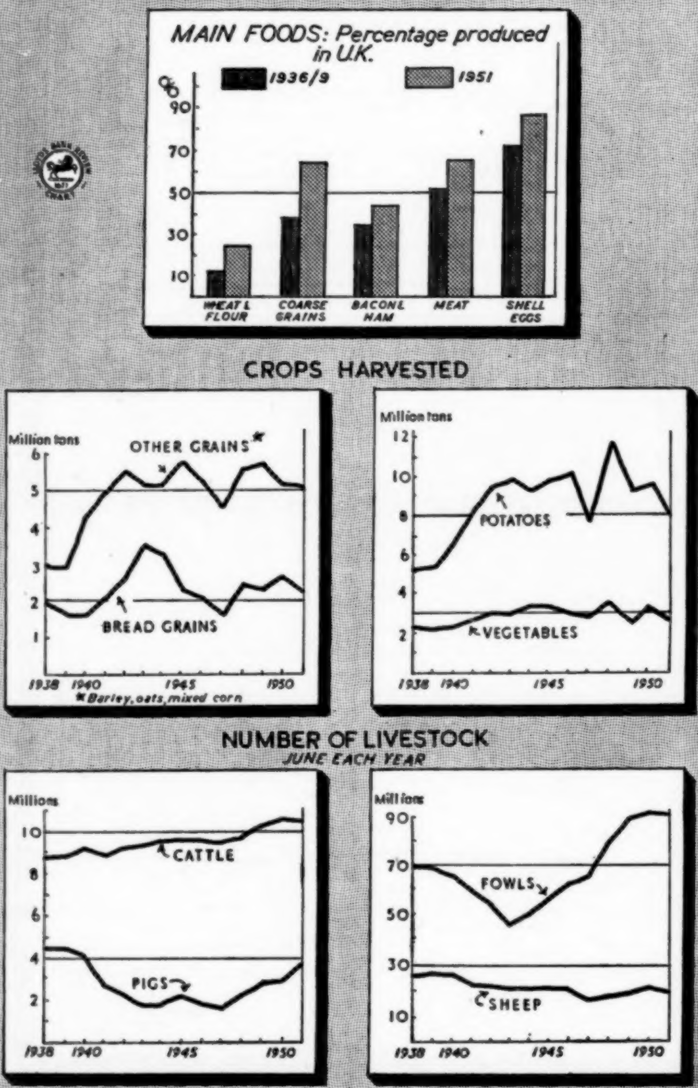




SOURCES: Finance Accounts
National Debt Returns
Economic Journal, March, 1948

† Years ending March 31

AGRICULTURAL TRENDS



SOURCE: Ministry of Food
Monthly Digest of Statistics